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THE NEW AMERICA

BY

THE RT. HON. SIR ARTHUR STEEL-MAITLAND
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ABBREVIATIONS

MOST COMMONLY IN USE

A.A.A. = Agricultural Adjustment Act, *also* Agricultural Adjustment Administration

A.F.L. = American Federation of Labour

Billion. = One thousand million (*not*, as in all other countries, a million million)

C.C.C. = Civilian Conservation Corps

C.W.A. = Civil Works Administration

F.E.R.A. = Federal Emergency Relief Administration

F.C.A. = Farm Credit Administration

H.O.L.C. = Home Owners Loan Corporation

N.I.R.A. = National Industrial Recovery Act

N.R.A. = National Recovery Administration (which administers the N.I.R.A.)

N.L.B. = National Labour Board

N.L.R.B. = National Labour Relations Board (which succeeded the N.L.B.)

P.W.A. = Public Works Administration

R.F.C. = Reconstruction Finance Corporation

PROLOGUE

THE Recovery Programme in the United States is unique as a political phenomenon. It is of vital importance to the United States. It is of interest and of importance also to citizens of other countries. Recovery in America will make a vast difference in economic conditions—and perhaps also in political relations—elsewhere. Moreover, the world is in a state of transition and the results of the experiments in the United States may well be of more than local value.

We are a purblind race of mortals. When a depression comes we devote all our energies to remedying its effects; we do not exert one tithe of the same effort to preventing its recurrence. Yet there have been few benefactors in the world whose work would compare with that of the man who can lay bare the secret of the trade cycle with its booms and depressions, and the methods by which they can be avoided. In the United States alone, it would have saved more than twenty million people from misery and hardship during the last few years. The causes of recurrent depressions can and ought to be discovered—and the experience of the United States should be peculiarly helpful in making the discovery.

The great experiment in the United States is in reality not one but a cluster of experiments—in currency and finance—in industry—in agriculture—in public works. Each is interesting in itself and all were undertaken with a 'go' and an enthusiasm which is infectious. The onlooker is tempted to say—as though

he were himself taking part—"Why cannot they hurry up with this?" (the housing scheme). "Why must they take that step?" (in currency). "Is it really necessary to make a compromise instead of telling them to go to the devil?" (the currency inflationists).

It is not easy for people in England to know what is happening in the United States, still less to understand the reason and the meaning of those happenings. That is why this book has come to be written. It may also be of interest to Americans to know how events in the United States appear to a British citizen who has had unusually good opportunities for studying them.

I make no apology or pretence for this book. It gives a sketch of recent events in the United States in industry, in agriculture, in finance and in politics; and also the personal opinions which I have formed after a study of the facts. Where necessary, the sketch is preceded by a description of the conditions that form the setting for the action which has been taken. Those who are well acquainted with the course of events will probably be able to point to some fact or feature to which they attach importance and which has been omitted. This is inevitable. The book is not an exhaustive analysis. I have had to select and to condense from a large mass of material, and such selection is always a matter of judgment.

Within the limit of these conditions I have endeavoured to convey a true impression. Certainly I have had unusually favourable opportunities for obtaining knowledge at first hand of what was going on; of the reasons for the different policies adopted; and for estimating their effects. I was able to study the situation and to talk to those best qualified to form an opinion upon it, not only in Washington and New York but

from the Eastern seaboard westward, through Chicago, to San Francisco, and from Minneapolis in the North, to Texas and New Orleans in the South. For this, I am before all things indebted to the Rockefeller Foundation, on whose invitation I went to the United States in the first instance, and whose guest I was during a great part of my stay. But the authorities of the Foundation are not responsible for any opinion or statement to which I give expression. I am also under a peculiar obligation to members of the Brookings Institution for the help which they so freely gave me. I am indebted also to a host of others, both in Washington and throughout the United States, who, by their readiness to answer my questions and discuss freely the subject of my enquiry, gave me an insight into aspects of it which otherwise I could not possibly have gained. It is impossible for me to name them individually, but they realise my gratitude for the more than friendly way in which they helped me. I am also particularly grateful to the Director and members of the staff of the International Labour Office at Geneva for all the help and information which they most generously gave me.

A. S.-M.

October 1934

CHAPTER I

The Political Stage and the National Background

One hundred and fifty years ago, the Continent of North America, undeveloped and as yet sparsely populated, was the scene of a political revolution which gave birth to a great Republican democracy and to the first federation of modern times. The same Continent to-day is the scene of an attempt—no less far-reaching—to transform the existing economic system, under which the American nation has grown from small beginnings to its present size and power and under which it has scaled the heights of prosperity and sounded the depths of depression. To what extent that attempt is the outcome of deliberate purpose or the result of the urge and pressure of events may be a matter for speculation. It touches the economic life of the nation at every point—the organisation of industry and of agriculture; the welfare of the people; methods of finance and the stability of Government. It raises more than once the fundamental question of the relation of the State to the individual, and in the process, many of the workings of the capitalist system are laid bare as on the dissecting table. At this time, when the capitalist system is called in question in all countries—as political autocracy and social privilege were called in question a century and a half ago—the 'New Deal' of President Roosevelt is of more than ordinary interest to those who believe that capitalism, like all human systems,

is changing under the force of changing conditions and the deliberate purpose of man.

During the last decade and a half the world has been prolific in political experiments. The new regime in America is the latest and generically, it is different from all the others. In all the countries of Europe in which the form of Government has been changed, the war which was to make the world safe for democracy has resulted in its destruction. From the dragons' teeth sown by the war there has grown a monstrous crop of dictatorships. The very wildest enthusiast for popular government, however, cannot deny the democratic character of the new regime in the United States.

In one respect, and probably in one only, that regime resembles the new governments elsewhere. It owes its birth to the popular discontent and misery from which all the countries and all the peoples of the world have suffered for nearly five years. In Germany, for example, during the first three years of the slump, the people continued to 'bear the ills they had' rather than 'fly to others that they know not of'. Not until the fourth year did they turn from democracy under Brüning to dictatorship under Hitler. In America the intensity of the misery was as great as it was in Germany and the contrast with previous well-being was much more striking. It led, as elsewhere, to a popular upheaval against the existing regime. There, however, the similarity ends. Germany had been governed by a democracy and the revolt there led to a dictatorship. In the United States the political regime under which the *débâcle* took place was democratic. But it was not the Government which for ten years previously had been the most prominent or the most potent factor in American life. By far the most powerful

force had been that wielded by the highly-centralised plutocracy, whose influence — or control — was felt throughout the whole field of finance, of manufacture, of transportation, and even of distribution. It was not surprising that in the Presidential election in 1932, a people which had suffered so severely should vote for a candidate who not only opposed the political party previously in office, but who challenged the business regime which had been dominant.

The new President in his pre-election speeches in the country had promised speedy action to meet the depression. He was as good as his word. The problem was attacked from a number of different sides simultaneously. Stimulation of industry by an increase of purchasing power; special measures for the relief of agriculture; a grandiose public works programme; loans or payments out of public monies to farmers, home-owners, industry, banks and insurance companies; open market operations by the Federal Reserve Banks; currency manipulation and dollar devaluation—all these remedies were applied concurrently, or as nearly concurrently as might be.

This diversity of treatments makes the American experiment of absorbing interest, but it also makes it difficult to follow the course of events and to understand the reasons for the different measures that have been taken. The difficulty is particularly great for an Englishman and for a reason that has often been the cause of trouble in Anglo-American relations. In negotiating with France, Germany or Italy, we are instinctively prepared for differences in conditions, in institutions and in mentality, and we make adjustments accordingly. In dealing with the United States, however, the very identity in language and the super-

ficial similarity of governmental institutions frequently prevent our making the same adjustments. The greater the likeness, the greater is the possibility of misunderstanding, although the outlook of the average American and that of the average Englishman are fundamentally much more alike than that of individuals of other nations.

Emphasis upon this fact is peculiarly necessary in a sketch of the American Recovery Programme which is primarily intended for British readers. Unless the nature of the national background and of the political setting in which the Recovery drama is being played are both appreciated, the course of the drama itself is unintelligible. We naturally conceive of the United States as one country, in the same sense as France or Italy. It is nothing of the kind. It is a group of countries. It is like a Free Trade Empire of seven great dominions, united for common purposes, but differing greatly one from another. In mileage it is as far from New York to San Francisco as from London to Constantinople, and the difference in climate is greater. It is essential, therefore, when forming a judgment on events from day to day to remember that the several great regions of the United States differ from one another in natural conditions, in temperament and in their economic interests as much as the different Dominions under the British Crown. Thus it is that when Congress meets, the laws which are passed represent adjustments between different and it may be conflicting regional interests. The President, who represents the country as a whole, is the harmonising influence.

These characteristics have always existed in the United States. They were a feature of the first thirteen

States in the early days of independence. Since then, with the cession of Louisiana, the annexation of Texas and the settling of the Pacific Coast, the geographical scale has greatly expanded, but the fundamental characteristics remain the same. In another respect, however, a change has taken place since the United States had last to face a serious depression—a change which profoundly affects the present problem. Until recently the last frontier of development had not been reached. To the West, between the Mississippi and the mountains, cultivation could still be pushed forward. It was not indispensable, therefore, for the Government to make provision for unemployment in a time of bad trade. If other help were not forthcoming, a living, albeit a hard one, could always be made by breaking new soil in the West. Such treks to the West occurred as late as the depression of 1893. They not only relieved unemployment, but aided development. When the depression passed and business recovered in the factories of the East, the place of the migrants gone westwards was filled by newcomers from Europe. Moreover, in those days Europe was continually increasing her purchases of American wheat and meat. The new farmers in the West, therefore, had an outlet for their own products and they also swelled the market for home manufactures and thus stimulated the expansion of American industry. Today the whole situation has changed. There is no new ground on which a pioneer can settle and earn a living; agriculture is contracting, not expanding. The frontiers of development have been reached. The change is vital. The United States has now to face the problems which have long confronted the older countries of Europe, and she will no longer find the old loosely-

knit social organisation adequate for her needs. So long as trade cycles exist and trade depressions occur, some organised form of provision will have to be made for the unemployed.

It is not only in provision for unemployment that a change has been inaugurated in the industrial system of America. The organisation of labour and of industrial relations has entered on a new phase. Superficial critics may ascribe this change to the National Industrial Recovery Act and to the celebrated Section 7 of that Act which deals with the relations between Labour and Capital. The N.I.R.A. has indeed created the opportunity and afforded the means for bringing labour questions into prominence, but the operative causes lie deeper. The whole question is discussed in the chapter on the Organisation of Industry. At this point it is only necessary to depict—in the broadest outline—the industrial background to the Recovery Programme. During the first three years of the slump in the United States, there was a period of almost unnatural calm. Now the whole labour world is astir. It is like the great pool below the Niagara Rapids where the water is only broken here and there, but the heaving of the surface betokens the unrest of the forces beneath. This unrest is a striking instance of a disharmony inherent in the whole of the American system. It results from the impossibility of getting the human part of the national mechanism to keep pace in development with the material. New machines and methods of operating them may be devised and perfected within a few months. It is very different with the organisation of labour and of industrial relations. The British system is far from perfect. Witness the General Strike and the great Coal Strike of 1926.

Eppur si muove. It works—not very well, yet not so badly. As it is, with its good points and its weaknesses, it is a gradual evolution. Can such a development be extemporised, or even artificially accelerated? Is it practicable to institute by law rights and obligations which, in our experience, have only gained acceptance through a long series of bickerings, followed by agreements based on give-and-take? These are the questions raised by the present labour situation in the United States. A difficult time lies ahead of American industry. Those who have had to deal with similar problems in Great Britain can sympathise with them in such a troublous prospect.

Another influence, almost equally important in its effect on recovery, is that of 'Wall Street'.[1] In England we grumble at the 'Big Five'. We complain that they do not give credits as freely as they might. Octogenarians tell us that the country banker of their youth—now, alas! like the Dodo, extinct—was a much kindlier person. The 'Bankers' ramp', *alias* 'racket', was heard of at the last General Election in speeches delivered by some of the more ardent left-wing politicians, although when a prominent speaker was asked to name a banker who ramped, and to say why he ramped and how he ramped, no answer was forthcoming. The methods of the 'Big Five', however, have been very different from those of the American banks. They do not act in concert. Competition between them is as keen as the strife between Paul and Barnabas. They do not issue new securities; they do not control the railways; they do not dominate the insurance companies; they do not

[1] Individual questions dealing with the financial and banking situation are discussed in Chapter IX.

exercise a decisive influence on large industrial concerns. Yet that is in fact the case in the United States. In another respect the difference between the two countries is just as great. A fool and his money are soon parted in England as elsewhere. But those who go to a broker in London for advice know from experience that he will do his best to prevent them from losing their money. In New York, on the other hand, the machinery of the stock exchange is geared up in a manner which has increased gambling and speculation. This is not, of course, a criticism of individuals. There are men in New York who give as good and sincere advice as any in London. Again, London had its Hatry, as New York had its Wiggin. But the financial system in the United States was and is entirely different from that in England. That it was bound to lead to disaster is emphasised by bankers themselves, such as the late Mr. Trayler, the President of a leading bank in Chicago. It was a direct and immediate cause of the great speculative boom of 1929, and of the disaster which followed. As a result of all that has happened, the resentment against Wall Street is deep and widely spread throughout the length and breadth of the United States. This reaction is reflected in the Recovery Programme in a number of ways. Measures dealing with banks and with the stock exchanges have been introduced into Congress. Another and most unfortunate result is that, at this critical time, there is a breach between the nation and its natural advisers in matters of finance. Currency problems are among the most important which confront the American Government. Yet neither the people nor the Administration nor Congress would seek the guidance of those who normally should be their natural ad-

visers. The reaction of this state of affairs upon New York is equally unfortunate. Confidence among the leaders in finance and in industry may have a great influence on the revival of the capital goods industries and upon recovery generally. Yet New York has been probably the most pessimistic place in the United States about the Recovery Programme.

In contrast with these nation-wide influences, the working of the political system may seem of little moment. As a matter of fact it influences events materially. Despite a superficial similarity, the party systems in Great Britain and the United States differ widely. In British politics it has become increasingly rigid. Unless the supporters of a Government are prepared to split their party permanently they do not vote against the Government on a critical issue. The Indian question may prove to be such an issue. If so, it will be one of the very rare exceptions. Subject to such contingencies, however, a British Cabinet, drawn from the party which has gained a majority at an election, can effectively dominate the House of Commons. In the United States, discipline is much looser. Cross voting is common among both Senators and members of the House of Representatives. The Bill to increase the 'bonus' payable to the Veterans was carried by a two-thirds majority over the President's Veto. Normally, of course, the President can rely upon the support of the members of his party, and with the prestige which he enjoys as head of the nation as well as of the Government, he can carry most measures on which his heart is set. But whereas the British executive enjoys a ticket-of-leave autocracy, tempered only by a sense of the wrath to come when the ticket expires, the President is not

master in his own house. For indeed the house is not his to be master of. The Senate and the House of Representatives form a legislature which is independent in fact as well as in name. Chairmen of committees in either body would resent it being considered an appanage of the executive, and they could make their resentment effective.

This comparative independence of party discipline is due to a combination of several reasons. Broadly speaking, political parties in the United States are not divided by any question of principle. Republicans, as a rule, stand for a higher tariff than Democrats. There are more Democrats of advanced social views than Republicans. In each case, however, the difference is in degree, not in kind. There are indeed questions of principle upon which men are deeply divided—for example, the status of negroes. But these differences are not political in the usual sense. They transcend ordinary politics. White men throughout the South-eastern and Southern States are less likely to be advanced in their ideas on social questions than are men in New England. But they will vote solidly for the Democratic ticket, while the latter will probably vote Republican. Other divisions of opinion also cut across party lines and may influence a Congressman on any specific occasion to vote against his party. This tendency is increased by the very mechanism of the constitutional machine. It was devised as a system of checks and balances, and the assertion of legislative independence has become a matter of tradition and of instinct with Congress. The individual circumstances of a Congressman probably exert a still more potent influence. He must have a residential qualification, which in actual practice has come to mean that he is

tied for life to one constituency. Defeated there, he cannot find another seat. The British Member of Parliament is in a wholly different position. He may be re-elected for another seat, and, with the goodwill of the party authorities, such a seat may not be difficult to find. The difference is vital in its effects. It is often easier for a Congressman to disregard his party leaders in Congress than to ignore the wishes of some substantial group of electors at home. Indeed, a vote which causes the defeat of a proposal sponsored by the Government which he supports may quite possibly ensure his own re-election. Moreover, in America a defeat of the Government does not involve a General Election as it does in England. When the stated time for an election comes round, his sin will probably have been forgotten and, unless he has been a persistent and contumacious heretic, he will receive the blessing of his party leaders.

Two further differences between Congress and Parliament must be understood if the difficulties of an American administration are to be appreciated. In Great Britain, Cabinet Ministers and their deputy Ministers, by the fact of their being Members of Parliament, influence other Members both by ordinary intercourse and by informal talks in which Government proposals can be explained and misunderstandings removed. In the United States, Cabinet Ministers are not members of Congress. This not only prevents them from mixing freely with Members of Congress, but it also impairs the quality of the measures passed. As a general rule, no preparation of a Bill can be so careful and accurate or its steering through the legislature so effective, as when the same persons are responsible for both. A British administration enjoys

another great advantage—the presence in the highest posts in the Civil Service of permanent officials who are familiar with the subjects dealt with in Parliament and who know its ways. These characteristics of the British system enhance the control which the Executive exercises over Parliament.

Each governmental system has its advantages and its drawbacks. The British machine works much more smoothly. Acts of Parliament, when they are placed on the Statute Book, are probably far more closely adapted to their purpose, as may be seen from a comparison of the recent American Securities Act with the British Companies Act. On the other hand, it is dangerous for a system to be so developed as to give the Executive too autocratic an authority over elected representatives. This is a danger to which Great Britain is becoming increasingly exposed by the present development of Parliamentary institutions and procedure. Within the lifetime of a single Parliament in Great Britain, measures dealing with matters of fundamental importance may be passed, which are not really desired by the people of the country, and which yet cannot easily be repealed.

The week preceding the inauguration of the new President had been a period of growing apprehension. When the crisis came and the banks closed, the atmosphere resembled that in England during the General Strike. The same excitement prevailed; the same gaiety in meeting unknown and hitherto unsuspected inconveniences caused by the paralysis of the usual life of the nation; the same conviction that the crisis would soon pass, mingled with the lingering apprehension that it might not. Unexpected hardships were caused—and in many cases were unexpectedly relieved, for class

distinctions vanished and people helped one another with an unaccustomed kindliness under the influence of an emergency nation-wide, novel, puzzling, and of which none could foresee the issue. Congress met under the shadow of these events. The crisis was immediate—and the President had received an overwhelming mandate for action. As was natural in a time of crisis, wide powers were conferred on the Executive, in the person of the President. These powers were bestowed by Acts of Congress which laid down broad limits of action and gave the President discretionary powers within those limits. In the National Industrial Recovery Act, for instance, the President was granted so wide a discretion that the new form of industrial organisation could be moulded to almost any shape which the administration wished. It was typical of the situation, however, that the action of Congress should be spasmodic and incalculable. Some Acts would be passed almost without criticism. In one, the Agricultural Adjustment Bill, Congress intervened, not only to criticise, but to insert an amendment wholly foreign to the Bill, which created wide powers of inflation. In this instance, moreover, Congress was only persuaded with some difficulty to make the use of these powers discretionary and not compulsory upon the President. In 1934, when the Second Session met, the urgency of the crisis had passed. Political opponents thought it was safe to criticise and Congress felt that it could occasionally take the bit between its teeth. It did so when it overrode the President's Veto and replaced part of the cuts in the Veterans' 'Bonus', to which it had assented a year previously. The Bankhead Cotton Bill was also passed into law, despite the disapproval of the

Secretary of Agriculture. And it was only by considerable adroitness that the President averted the passage of other legislation more extreme than the Silver Purchase Act. The system of checks and balances was again at work, although it was dominated by the adroitness and the prestige of the President.

It is doubtful if any Government in Great Britain fully appreciates how favoured it is by fortune in the comparative ease with which it transacts its legislative business. This is particularly evident when it is realised that in America a Congressman is free to propose measures involving public expenditure, and is subject to all the pressure which such freedom involves. How much better both for the Budget and for the Member if this were impossible, as it is in England. To all this must be added the legal pitfalls which may cause a measure otherwise excellent to be declared unconstitutional—and also the jealousy with which the forty-eight State Governments of the Union view any Federal action which infringes their patent or poaches on their preserves. It is probably true to say—as was said by a very acute and sympathetic, if critical, observer in Washington—that "the best President is not one who is 100 per cent an administrator, but rather a man who is 80 per cent a first-rate diplomatist". More than diplomacy is needed, however. The stress and strain of the whole system is concentrated on one man—the President—to a degree which must be difficult for any physique to support. The present President pursues his programme of Reform and of Recovery with a courage so abounding that it is impossible, mistakes or errors notwithstanding, not to hope that Fate will give him her favour and grant his venture good success.

CHAPTER II

Zero Hour

Zero hour! The moment of awful stillness before the tornado bursts in all its fury. Did the Goddess of Chance —or was it Fate—ever devise a stroke more dramatic than to call a new ruler to the helm of a great country at just such a moment? The downfall of industry, the slow strangulation of agriculture, had been followed by the collapse of banking, of which there had been premonitions, but of which the final *débâcle* seemed the most sudden, complete and cataclysmic blow of all. No one knew what fresh disasters were in store.

To most thinking people in this country the closing of the American banks came as a great shock. It revealed a state of affairs which was far worse than most people had suspected. When a country is stricken by some 'Act of God'—earthquake or flood or fire—it is a visitation which observers in other countries can readily understand. The disaster is of a type of which they have had knowledge, and its nature and extent is readily grasped from pictures in the daily press. With a trade depression it is different. All nations feel its effects and know that it is world-wide, but the inhabitants of each nation are occupied with the hardships which they themselves are suffering, and assume, however wrong the assumption may be, that because the depression is world-wide, so the sufferings of all are much alike. The closing of all the banks in the United States caused British people to realise that there was

something amiss with that country beyond the ills which we were enduring here. Most people in England, however, do not yet comprehend that the depression in America so greatly exceeded our own as to be in reality a different kind of malady. This fundamental fact, together with the developments which led up to it, indicate the situation, material and psychological, with which the new President was faced. They must be apprehended clearly, if only in outline, or there can be no true understanding of the new Administration and of its manifold difficulties. In other words, a view of the historical perspective is as necessary as a knowledge of the political stage or of the national background.

In the summer of 1929, prosperity in the United States reached levels hitherto unknown in the history of the world. The belief gained currency that the nation was securely established on a new plateau of material well-being, above anything hitherto attained, and from which it could rise to still greater heights. Nor was this belief merely the casual opinion of unthinking people. It was the view expressed by responsible men of affairs and endorsed by economists.

In 1929 production had outstripped all records. The annual output of automobiles was nearly three millions. For every six living souls, men, women and children, white and black, there was a car in use. The growth of huge office blocks and tall apartment buildings was phenomenal; the top of the newest skyscraper was two hundred feet nearer heaven than anything that had yet been built. Everyone shared in the prosperity, although farmers grumbled because their proportion of the mess of pottage was not so great as that of the townsfolk. Unemployment was slight. Work was plentiful. Not only nominal earnings but real purchasing power had

increased. Wage rates had risen and although the cost of some articles was very high, retail food prices were less than 5 per cent above the 1923–1925 level, and the general cost of living was actually below it. The general prosperity was reflected in the business of the department stores, whose clientele is chiefly in the towns, and of the great mail order houses, who do a vast business with the farming community. The former showed an increase in the value of sales of 10 per cent over the level of 1923–1925, and the latter more than twice as much. No wonder that to most people the barometer of the new prosperity seemed to point to 'set fair'. Comparatively few were, like Mr. Paul Warburg, weather-wise enough to see the signs of the approaching storm and to realise that the weather was indeed too fine to last.

It is humiliating that the human intellect and imagination can avail so little to penetrate even the near future. Twenty years hence mankind will look back on the changes which are now taking place in the structure of industry. In retrospect, the lines of development will be so obvious that it will seem strange that we should have dealt with them in so fumbling a fashion. So, now, looking back on the happenings of 1929, it is amazing that an outcome so obvious should have been apprehended by so few. Some industries, notably that of construction, had been declining for some months before the crash came in the stock markets. The writing on the wall was plain for all who willed to read. The depression was the inevitable outcome of the boom of that year, with its reckless finance. Great as were the increases in American commerce and industry, as judged by all the recognised tests, they were far outstripped by developments in the area of finance. In

England moralists and social workers deplore—and rightly—the evil of excessive betting. To thousands the allure of the Irish sweepstake, with its chance, however infinitesimal, of a great reward, and flavoured as it is with a spice of illegality, is irresistible. What betting on a horse is to an Englishman, betting on the stock exchange was to many Americans. Indeed it was more. In England, a man may scan the tape or buy a newspaper to see what has won the Lincolnshire Handicap or the 3.30 at Hurst Park. In America, however, speculation on the stock exchange was universal. In the hectic days of 1929, the bell-boy in a hotel would impart the news that at mid-day General Motors had risen two points or U.S. Steel was a shade easier; rooms were provided where a constant succession of prices hot from the stock exchange were thrown upon a screen and where men and women would sit scanning the changes intently; to buy stock on margin was accounted an investment; and the subject of three conversations out of four was the latest trend of security prices. In 1929, moreover, it seemed as if every bet must be a winner. People believed that 'all the to-morrows would be as to-day', only more abundant—and they were encouraged to believe it. The public wished to gamble and they were incited to do so. Men who wished to borrow money found people ready to press it upon them. New issues were multiplied of shares, good, indifferent and bad, with scant sense of responsibility as to their intrinsic value. They were peddled at the doors of possible investors by 'high-pressure salesmen' and recommended by reputable business houses and by banks. The bright hues of existing prosperity were projected, with added intensity, on to the future. As the excitement grew, prospec-

tive values were more and more liberally anticipated. Increasing rates for loans were paid on the stock exchange. The Federal Reserve Banks were unable to control the situation. The checks which they could impose were futile when rich corporations used their resources to finance stock exchange loans, and when men in England borrowed money at 7 per cent to lend again in America at greatly enhanced rates. What mattered the rate of interest, however high, when the increase in capital value in a month, a fortnight, or even a week, would pay for the interest charge thirty-fold? This description is not over-coloured. The facts speak for themselves. In 1926, new domestic issues[1] of shares in companies, or 'corporations' as they are known in the United States, amounted to $1087 million; they increased to $1474 million in 1927; to $2961 million in 1928; and to $5924 million in 1929—or nearly six-fold in three years. Despite this huge increase in the volume of stocks, the price of preferred stocks and shares in September 1929 had risen half as high again as they were in 1926; of ordinary railroad stocks to 168·1 per cent of the 1926 level; of industrials to 216·1 per cent; and of public utilities to 321 per cent.[2] Speculating on the future was carried to inordinate lengths when ordinary shares fetched a price so extravagant that at a time when interest rates were high, they gave a return of less than 3 per cent on the purchase price. The end was inevitable. The cord of credit was so stretched that it could not but snap. The autumn of 1929 ended with a collapse in stock exchange values like that of the South Sea Bubble, but on an enormously magnified scale—bringing disaster to the vast majority of those involved.

[1] See Table I. 5, Appendix C. [2] See Table VI. 1, Appendix C.

Grievous as was the harm inflicted by this national bout of speculation, it would be a parody of the truth to say that it was the sole cause of all the troubles which vexed the United States for the next four years. A depression of some severity was inevitable, in any event. Under prevailing conditions of production and trade it seems that the world must pay a two-fold price for the luxury of a war of great magnitude—a depression of moderate extent at the end of the war, followed after a short interval by another depression of much greater intensity. The years from 1923 to 1928 were a time of growing prosperity throughout the whole world, with the exception of Great Britain. But towards the end of that period there were increasing signs that this prosperity had no stable basis. Among the chief causes of this instability were the payment of reparations and war debts and the change of the United States from a debtor to a creditor country. Before the war, Great Britain was a great creditor country. She had become so, however, by a process of slow growth, and in the course of decades the position both of Great Britain and of the countries of which she was the creditor had been gradually adjusted to the relationship. The United States became, as it were, a creditor country overnight. It was only natural that she should not have acquired a 'creditor complex'—that is to say, a readiness to receive imported goods. It would indeed have been very surprising if she had, more especially as the change-over involved considerable domestic difficulties. As it was, the American tariff wall prevented the import of goods in payment for exports and as interest on the debts owing to her. She had, in consequence, an annual surplus in the balance of trade. The situation was met

temporarily by re-lending these surpluses abroad, especially to Germany, and by drawing gold from other countries. This system of loans could not go on indefinitely, however, and its cessation cut short the fictitious prosperity in the countries to which they were made. In addition, the absorption of gold by the United States, the great war creditor, and by France, the great recipient of Reparations, led to a shortage of monetary gold in other countries, and accentuated the fall in prices. Other causes contributed to the trouble, but they were of less importance. For instance, the decade after the war was peculiarly fertile in improvements in industrial processes, and such improvements always cause dislocation. In natural products, on the other hand, there was not so much over-production as has been asserted—the most notable exception being that of wheat.

The speculative boom, therefore, was only one among the causes of the trade depression in the United States, but it greatly accentuated the steepness of the decline. At first, the idea that the depression could be serious or lasting was met with incredulity. On March 7, 1930, after a few months of the decline, President Hoover said that "all the evidence indicates that the worst effects of the crash and unemployment will have passed away during the next thirty days"; and again, on May 1, "we have now passed the worst". Two years later, in September of 1932, the *Nation*, a leading American weekly journal, was at pains to cull these and similar statements by President Hoover in view of the coming Presidential election. It did not emphasise, as it might have done, the fact that the overwhelming majority of Americans had held the same view. Nor was this view so unreasonable. Earlier

depressions had touched America but lightly. Even that of 1921 was only of short duration. The existence of a frontier not yet reached, of acres yet untouched and of resources still undeveloped, had provided a recourse in distress—a shore upon which the waves of adversity might spend their force harmlessly. In 1929 conditions had changed. No unexplored hinterland remained. It was easy, however, to overlook the change and so fail to realise that the present depression was likely to be different both in intensity and duration. Whatever might be the case in other countries, in America prosperity was always waiting round the corner. Weeping might endure for a night, but joy was sure to come in the morning. Maintain pay-rolls, carry on business as usual, and all would be well. But all was not well. It is true that without confidence recovery goes haltingly. Confidence alone, however, will not stop a decline. That is beyond the powers of M. Coué. Once the depression started, it developed continuously. By July 1930 industrial production had fallen by one-fifth. In July 1931 it had sunk to two-thirds and, in the midsummer of 1932, to less than one-half of what it had been three years previously. The real intensity of the fall can be judged from the fact that in England the decline in production at its worst was less than one-fifth. Prices, employment, payrolls all followed the same downward course as production in those three years. Wholesale prices fell by one-third; employment in factories by 40 per cent; pay-rolls by 60 per cent. Of course the fall was not uniform. Capital goods suffered more than consumption goods, and any attempt to sustain prices resulted as a rule in a greater degree of unemployment in the industry concerned. In the iron and steel industry the

output of steel fell to 16 per cent, or one-sixth of what it had been three years previously, and the employment figure fell to one half and pay-rolls to one-quarter.

Statistics might be multiplied, filling in the bare outline of events that has been given. An English observer can get a better appreciation of the real situation in the United States in June 1932 from two comparisons—each of them striking and each strictly accurate. 'Buy America for Five Billion Dollars.' This was the title of an article in the *New Republic* of August 3, 1932. And it was true. Common stocks, which in September 1929 had gone up like a rocket to 225 per cent of their value in 1926, had, in the next three years, fallen like the stick to 34 per cent of that value. The control of the largest American 'corporations', representing the greater part of all American industry, was worth, at current prices, little more than one-half the war debt owed by Great Britain. The second comparison has no humour in it. In England every man of sensibility has been impressed by the plight of our two worst stricken areas—South Wales and Durham. In America at midsummer 1932 the plight of industry throughout the whole of the country was as great as that of South Wales or Durham at any time during the depression.

During this period of increasing hardship and misery in industry the course of agriculture was different, but no less disastrous. In America the population dependent on agriculture forms so great a part of the productive force and of the buying capacity of the country that its fortunes affect not only the farmers and their immediate surroundings, but the entire nation. In the autumn of 1929 farm prices, taken as

a whole, had been tolerably stable[1] for more than six years. The gross income of farmers during that period had exceeded $11 billion—over £2200 million annually. When the break came, the average value of farm products followed at first much the same course as that of manufactured goods. Subsequently, however, its fall was even more rapid. In 1930, farm prices were 83 per cent of the prices of 1929, but in 1931 they fell to 57 per cent, and in 1932 to 43 per cent. In other words, the gross income of farmers had fallen in the three years from over $11 billion to under $5 billion—or from £2200 million to under £1000 million. In one point there was a likeness between the misfortunes of the farmers and those of the industrialists. The incidence of the slump was not uniform. It bore with very uneven severity on different crops, but producers of wheat, cotton, corn and hogs all suffered very severely.

In other respects the plight of the farmers was very different from that of the townsmen. The huge volume of internal indebtedness has added greatly to the distresses and difficulties occasioned by the slump in the United States. In every perplexing situation its evil influence can be sensed, and it always indicates an aggravation of the trouble, like some sinister motif permeating the music in an opera. This is particularly true of agriculture. Forty per cent of all the farms were mortgaged. Nor are the farmers in this more blameworthy than other men. In the thriftiest of lands the natural tendency of the successful farmer is to lease a second farm into which to put his son. In the United States, during the prosperous years when land values were rising and borrowing was easy, a successful

[1] With the exception of cotton.

farmer would mortgage the farm which he owned in order to purchase a second. And in those spacious days all went well. In the lean years of slumping prices, however, the dollars which the farmer received for his bushels of wheat or bales of cotton were less than one-third of what they had been—but the dollars which he had to pay as interest on his mortgage were undiminished. He was between the upper and the nether millstone. He was worse off than the majority of the town workers who were still in employment. Their wages had been cut, sometimes drastically. But as consumers, they benefited by the fall in prices, while many farmers had little or no free income with which to purchase clothes or household goods. On the other hand, the farmer, unless he were evicted, could generally count upon obtaining the three prime necessities of life—food, shelter and fuel. The worker in the town, if unemployed, had no such standby. He might spend his savings, if indeed speculation had left him with any. But in the earlier stages of the depression he had no further resources and no recourse, save to the common human kindness of his fellow-men, who would not stand by and see him die of sheer starvation.

Such was the situation at midsummer 1932. It may be asked: 'What had the late Government done to help?' It is not the purpose of this book to discuss the Hoover regime. Current opinion in England, however, has often been most unfair to the ex-President and his policy. It has portrayed him as a Gallio, looking on and doing nothing but wait until the ebb-tide should be followed in the course of nature by the flow. Such a picture is grossly unfair. At the beginning of the depression, and before its enduring character was realised, he endeavoured to get employers to anticipate future

developments and thus to keep men in employment. As time passed, however, public works were started, although not on a great scale, as under the present Administration. Agricultural loan systems were extended. The Federal Reserve Banks attempted to stimulate industry by open-market policy, and expanded credit by over a billion dollars in five months. Lastly, the R.F.C. —the Reconstruction Finance Corporation—of which so much was to be heard later, was founded by him in January 1932. It had a capital of half a billion dollars and lending powers up to nearly four billions, with a very wide range of objects to which loans might be made. The combination of the open-market policy and the work of the R.F.C. helped to steady the banking panics and to ease the situation generally. But it was not enough to start an up-turn to recovery. Trade in America started once again on its downward drift in the autumn.

Meanwhile the unemployed suffered great hardship. At the beginning of the depression there was no provision whatever, federal, state or municipal, for the relief of the able-bodied unemployed. There was no unemployment insurance; no 'dole'; no Poor Law save for a few remnants of the old Elizabethan Poor Law, brought from England, still existing here and there throughout the States. The reason is not far to seek. Until recently the nation had been developing so rapidly that it could absorb not only its natural increase in population, but large numbers of immigrants. A moderate degree of unemployment could be met by a check on immigration. It is true that in 1921 for a short time there had been a large number of unemployed, estimated at 4,000,000. But this had not lasted long, and the proposals then made for planning schemes of

work-relief in advance were allowed to drop during the prosperity of the succeeding years. The view that unemployment should be cared for by organized charity was hallowed by tradition and it took an unconscionable time in dying. Towards the end of 1929 President Hoover called a meeting of leaders in industry, commerce and labour. States and municipalities were called on to enlarge their public-work undertakings. Little if any impression was made, however, on the growing volume of unemployment. The numbers of the workless continued to grow. According to the accepted estimates, there were 3,216,000 unemployed at the beginning of 1930; 7,160,000 in 1931; 10,197,000 in 1932, and in January 1933 the total reached 12,986,000. The only agency available to deal with the situation consisted of charitable organisations, which dispensed funds obtained from private sources. These bodies did noble work in New York, in Chicago, in Philadelphia, in San Francisco and in many other places, expanding the number of their workers, and often taking on fresh duties, such as employment agencies. It is no disparagement of their efforts to say that the task was too big for any body of voluntary organisations to cope with effectively on a nation-wide scale. The provision of adequate funds constituted another difficulty. True to tradition, reliance was first placed upon charity. After the first winter, however, had passed and the depression deepened, private resources became increasingly unable to bear the strain. They were gradually supplemented by grants from State funds. These, too, failed, and a sum of $200 million was made available under President Hoover, in July 1932, for temporary loans to States for relief purposes.

A redeeming and surprising feature of the depression

was the comparatively small diminution in the consumption of bread and meat, and the actual increase in the consumption of butter and cheese. This was partly due to the fall in food prices and partly to private charity between individuals. Nevertheless, the hardships experienced were acute, and they were intensified by the irregularity in the supply of funds. From time to time during 1932 rumours were current in England that disorders on a large scale were imminent. It is true that in the farming districts of the North and the North-West —in States like Iowa—outbreaks occurred among farmers, and foreclosures were forcibly resisted. In the towns, however, there does not seem to have been any foundation for these rumours. Hardships were borne with a surprising acquiescence. Possibly this was because real privation was not confined to any one class. A workman might find his one-time 'boss' in the same strait as himself. Be that as it may, the patience of the unemployed was really amazing. Patience, however, did not connote approval of the existing Government. There was a slight recovery in industrial prices in the autumn of 1932, but the improvement was not enough to be sensibly felt. Looking back, it is very doubtful whether anyone, however courageous and adroit, could have prevented the *débâcle*, when once the state of affairs which existed in 1929 had been reached. The forces, both national and international, which made for instability and decline were probably irresistible. Anyone in that year who tilted against the excessive flotation of securities or speculation on the stock exchange; who attempted to settle the question of debts and reparations, or to mitigate the general enhancement of world tariffs, would have courted failure. No devil when full of health tolerates

being enjoined to act like a monk. But this did not save President Hoover and the Republican Party. The Presidential elections were bound to show a strong reaction against the existing Governmental regime. A popular electorate may be forgetful in showing gratitude to a Government for a return to prosperity; it is never backward in visiting on its head the responsibility for a time of trouble. In the United States, where the fall was from an unprecedented height to an equally unprecedented depth, popular vengeance was bound to be particularly savage, and it resulted in the crushing Democratic victory.

The months which followed constituted an unedifying episode in American constitutional history. The defeated President had to deal with a newly elected and hostile Congress that was not likely to co-operate with him. Meanwhile the autumn spurt in production, such as it was, faded away. Employment, pay-rolls, prices, remained at the lowest ebb, and January and February of the new year 1933 were perhaps the most miserable months of a long and miserable series.

A new danger, moreover, of which there had long been premonitions, now became actively menacing. The American banking system consists of 15,000 separate banks, and is regulated by the 49 different codes of banking laws—the Federal Law and the laws of 48 different States. Not only is there no inter-State spreading of risk, but within the borders of the same State there is little branch banking, and most of the banks, so far as risk is concerned, are so many water-tight compartments. This makes the whole system peculiarly vulnerable in a crisis. Failures had been common even during the prosperous years

of the last decade, and their frequency increased during the depression. Over 4600 banks were closed or absorbed by other banks during the years 1930 and 1931, and the prevailing lack of confidence in the banks was shown by the increase of hoarding by individuals in the latter part of 1931. The state of affairs was improved by the formation of the Reconstruction Finance Corporation in January 1932. Bank failures were fewer in that year and hoarding decreased. In the winter, however, distrust again became prevalent, and in February 1933 the situation suddenly became acute. The trouble began in Michigan on February 14, 1933, when the Governor of the State proclaimed a week's banking holiday on account of banking difficulties which culminated in the failure of two of the leading banks in Detroit. Meanwhile, hoarding had again begun to increase largely. On February 25, 1933, the Michigan Banks reopened, but withdrawals of deposits were limited by law to a small fraction of the whole. By this time the alarm had spread, first to Maryland and Ohio, and then to other States, which also enacted emergency statutes.

As each day passed the strain became greater. Hoarding was now taking place on a colossal scale, money in circulation having increased in three weeks by over a billion dollars. The gold reserves in the same period had decreased by 355 millions. At the end the crisis developed so rapidly that the public were bewildered. The drama moved swiftly to its culmination. On Saturday morning, March 4, 1933, Governor Lehmann of New York issued his Proclamation.

The New York banks closed.

Zero hour had struck.

At noon the new President was inaugurated.

CHAPTER III

THE 73RD CONGRESS

1. THE HUNDRED DAYS

'THE Hundred Days!' The words recall those crowded days from the return of Napoleon from Elba to the final day at Waterloo. In all military history there was never a period of more intense activity. Yet their application to the Special Session of the 73rd Congress in the United States is no mere hyperbole. It is doubtful if ever, in time of peace, so much legislative and administrative activity was compressed into so short a space. Into the brief period between March 9 and June 16, 1933, were crowded a number of administrative measures of the greatest moment. Congress passed into law ten Acts of first-class importance, and under those Acts discretionary powers were given to the President, wider than had ever been conferred upon a President of the United States within living memory.

It is not surprising that President Roosevelt is sometimes classed with Mussolini or Stalin or Hitler, as a dictator. He has indeed been invested by the emergency legislation with amazingly far-reaching authority. He can both inflate the currency and reduce the gold content of the dollar by one half. He can bring about a revaluation of debts and of all fixed-interest obligations. He can alter the whole conditions of industry, as regards wages, hours, competition and prices. He can impose tariffs—so far as they are neces-

sary to make the Recovery Programme effective. Indeed, he has the power largely to direct the economic policy of the country in the direction either of nationalism or of more liberal trade relations with foreign countries. Nor does this list contain all the discretionary powers accorded to the President. This is a selection of samples, not a catalogue. It is not the grant of wide powers, however, which constitutes a dictatorship. It is the use of such powers combined with the intention not to surrender them or to let their employment be subjected to the unfettered judgment of a popular electorate. Freedom of speech and of criticism is seldom tolerated under a dictatorship. In America there has been no let or hindrance to criticism of any kind. Furthermore, the most important part of the President's delegated authority is subject to a time limit, or it can be recalled by a resolution of Congress.

There is a simpler but sufficient explanation of the grant of wide powers to the President. The country was in a crisis. The atmosphere in which Congress met in March 1933 was little different from that of war time. In time of war legislatures do not sit, debate and criticise in the ordinary manner. The need for speedy action is recognised. Criticism is abated in proportion to the urgency of the need. Discretionary powers are granted which can facilitate action and rapid adjustments of policy while the legislature is in recess. The 73rd Congress acted in just such a manner.

The new Government in the United States was confronted with a crisis in the first hour of its existence. In the morning of Saturday, March 4, all the great New York banks had been closed. On the following evening the President proclaimed a banking holiday to last until midnight on Thursday, March 9. The proclamation

prohibited the export of gold. The Secretary to the Treasury (who corresponds to the British Chancellor of the Exchequer) was given power to authorise banks to open for a minimum of necessary business, such as withdrawals of money for the purchase of food, and some banks opened for this purpose on the Monday and Tuesday. On Wednesday, March 8, the Treasury announced an issue of Federal Reserve bank-notes to meet the emergency, and the Federal Reserve Banks opened in order to deal with the issue. The new Congress met on Thursday, March 9, and the President asked for immediate emergency legislation. The Emergency Banking Act was accordingly passed, unanimously by Congress and by seventy-five to seven in the Senate, and it became law next day. This Act provided for Federal authority to control all banks; to open those which were sound and to put conservators in charge of others; for the issue of Federal Reserve bank-notes; and for the grant to the Treasury of full power to deal with gold and with foreign exchange transactions. On Saturday, March 11, the Federal Reserve Banks reopened for ordinary business. On the following Monday 346 banks opened in the larger towns, and on the next day 1000 banks in town and country. The crisis was over. Confidence returned. Gold which had been hoarded in the weeks preceding the crash came out of hiding. Money flowed back into the banks in a great tide, no less than 630 millions of gold and gold certificates being paid in to the Reserve banks between March 4th and the end of the month. No small part of the return of confidence was due to the masterly short speech explaining the situation which the President delivered to the nation over the radio on March 12. It was described—and not without justice—by an

enthusiastic supporter as the Presidential utterance "of the greatest value to the nation since Lincoln's speech at Gettysburg". The Government had met its first crisis and had surmounted it with great skill and success.

The first week of the new regime witnessed the passage of another measure of importance. The veterans' 'bonus' had long been a scandal. It had been outrageous three-quarters of a century previously, and it had not become less so as the years had passed. It is common knowledge that pensions which could not possibly be justified on a proper examination were paid to veterans or to the widows of veterans of the world war, the Philippine insurrection, the Boxer rebellion and the Spanish American war. Pensions are also being paid to war widows who had, as girls, married aged men whose service, such as it was, ended many years before the marriage. The Pensions list of 1933 still includes the widows of veterans from the war of 1812—one hundred and twenty years ago. The grossness of the system was admitted by everyone. It was perhaps a method of relief in a time of distress when no other system existed. But it was the worst kind of method. It absorbed funds which otherwise could have been used to help men whose needs and deserts were greater. The firmness with which this abuse was entrenched was shown by the fact that successive Governments had tried to deal with it and had failed. On March 10, in the middle of the banking crisis, the President sent a Bill to Congress demanding cuts both in the pension of veterans and the pay of officers and employees of the Government. Some resistance was made. Amendments were proposed; some of which were accepted, but the Bill was eventually

passed and an annual saving was effected of more than $400 million. The measure had a two-fold significance beyond the actual financial saving, great as that was. At a time when the country was full of rumours of inflation, it showed the effort which the new President was prepared to make to balance the Budget. It was also evidence of a courage which might prove a great factor in the future. Incidentally, it formed an interesting political parallel to what had happened in England in 1931. In the autumn of that year a British Government imposed swingeing taxation and cuts in pay and in unemployment benefits—also to meet a crisis—and in the ensuing elections it received overwhelming support from the very people who had borne the brunt of the economies. So in 1933, when President Roosevelt attended a great gathering of veterans soon after the Economy Act had been passed, he was greeted by them with tumultuous applause. How sorry was the sequel just a twelvemonth later!

With the exception of the Unemployment Relief Act, approved on March 31, no further measure of importance received the President's signature until the Agricultural Adjustment Act was passed on May 12. Congress, however, had been busy, and from that date until the end of the session on June 16, a continued stream of measures found their way to the Statute book.

The following is a list of the principal Acts of Congress which were passed in the session of 1933, and of some of the more important executive actions of the Administration[1]:

[1] A brief statement of the contents of these Acts and of those of the Session of 1934 is given in Appendix A.

Proclamation of Banking Holiday . .	March	5
Emergency Banking Act	,,	9
Executive Order—partial embargo on gold exports	,,	10
Economy Act	,,	20
Unemployment Relief Act	,,	31
Executive Order, forbidding gold hoarding .	April	5
"Thomas" Amendment to Agricultural Adjustment Bill, giving President new powers over credit and currency	,,	20
Executive Order—embargo on gold export made complete	,,	20
Joint British-American statement stressing need for stabilisation	,,	26
Agricultural Adjustment Act and Emergency Farm Mortgage Act	May	12
Federal Emergency Relief Act of 1933 . .	,,	12
Presidential Message to Nations of the World, urging currency stabilisation	,,	16
Tennessee Valley Act	,,	18
Securities Act of 1933	,,	27
Resolution repealing the Gold Clause . .	June	5
National Employment Service Act . .	,,	6
Act authorising R.F.C. aid to insurance companies and regulating R.F.C. loans .	,,	10
Home Owners Loan Act of 1933 . . .	,,	13
Banking Act of 1933	,,	16
National Industrial Recovery Act . .	,,	16
Emergency Railroad Transportation Act .	,,	16
Farm Credit Act of 1933	,,	16

It is difficult for a casual observer to see any clear plan or pattern running through the different Acts of Congress and administrative measures of the Government. Enthusiastic supporters of the regime claim that they are "coherent and organic parts of one well-ordered programme"; critics see in them nothing but a jumble of inconsistencies. The truth, as usual, lies

between the two extremes. The Government record is full of inconsistencies. But it is far from being a mere jumble. There are some general considerations which, if borne in mind, simplify the complexities and account for the contradictions which undoubtedly exist. Chief among these are the different and sometimes conflicting aims of the Government, the emergency nature of the Administration, and the speed with which action had to be taken.

The convenient phrase 'The Recovery Programme' is generally used as summing up all the Governmental activities of this period. But the Government aimed at much more than recovery. Its objective was not single. It was four-fold—Relief, Recovery, Reform and Reconstruction. Surprise has been expressed at the nature of some of the reform measures which have been introduced. There may be some reason for resentment on the part of the interests affected, but there is none for surprise, unless it is taken as axiomatic that a politician, on attaining office, will not attempt to practise what he has previously preached. The intention to carry out reforms had been as clearly indicated in the previous speeches and actions of the President as his desire to promote recovery. The simultaneous pursuit of such different aims, however, was bound to lead to contradictions. The progress made was like that of a team of 'huskies' driven by an Eskimo. Under skilful driving they may pull the sledge along, but they are creatures which are liable to mutual misunderstandings and at any given moment they may do one another a damage and may possibly overturn the sledge. So it was with the Recovery Programme in the United States. An Act which aims at reform, such as the Securities Act, may prejudice recovery. The need for

providing relief, which was as imperious a necessity as the promotion of recovery, affected the whole nature of the N.I.R.A., and damaged its recovery value.

The other main clue to an understanding of the activities of the session of 1933 is a realisation of their emergency character. They bear an essential likeness to those of war-time Administrations, with all the implications which are involved in such a comparison and the points, good and bad, which are their peculiar characteristics.

As was the case in England in 1914, so it was in the United States in March 1933. Washington hummed with life. New activities came into being. Government departments were multiplied. New offices sprang up overnight. Recruits of all kinds were brought into Government service—men of business, university professors, the celebrated 'Brain Trust', and many others, both experts and non-experts. They were as full of zeal as bees, but full also of differing opinions which, fortunately for the hive, worker bees do not possess, being too busy with the gathering of honey. The N.R.A. in America in 1933 was in some respects much like the Ministry of Munitions in England in 1915. Indeed, had General Johnson, the administrator of the N.R.A., been an English citizen, he would undoubtedly have been seized at that time by Mr. Lloyd George as a man after his own heart—of just the 'push and go' he wanted. The difference between the machinery of the British and the American administrations was as illuminating as were their points of resemblance. In England, there was a much greater stiffening of able and highly-skilled Civil Servants than was possible in the United States. The British Civil Service is very like virtue in the classic description. We abuse it while it is with us, but we should de-

plore its loss if it were not there. Its experience enables it to foresee and warn Ministers against harmful reactions which might follow some seemingly attractive course of action. It can suggest the right step to take if there be one, and it can help in preparing the legislation which may be required. The British Civil Service helps also to harmonise divergent views or to remove inconsistencies either in the internal working of a great department or as between one department and another.

Assistance of this kind would have been invaluable to the American Administration of 1933, especially in view of the speed with which action had to be taken on the various measures which were put through. Action, and speedy action, was of the essence of the Government's existence. In the bank crisis there was no question as to the urgency of the need. The provision of ampler grants for relief was an almost equally urgent necessity. The problem of the general indebtedness of the country was also pressing. The means for dealing with it had to be increased and the methods accelerated. Hence the development of the Reconstruction Finance Corporation. Hence also the Acts of Congress which set up credit systems—which all had to be passed before Congress itself adjourned. This intense activity assorted with the President's own nature and inclination, but even if it had not done so, it would have been thrust upon him. There were two main reasons for the crushing defeat of the Republican Party at the hands of the electorate: the plight to which the country had been brought—starvation in the midst of plenty—and the belief that the Republican Government had been slow and half-hearted in taking steps to relieve the situation. A new Government came into power with a popular mandate for action. Some

critics might dislike the policy of the National Industrial Recovery Act; others that of the Agricultural Adjustment Act. But the country was for action and Congress echoed their demand. Better action that was not fully understood or approved than no action at all.

Under these conditions it was natural that the degree of preparedness of Government measures should vary greatly. The principles of some measures—such as the Agricultural Adjustment Act and some of the relief and loan measures—had obviously been determined beforehand. Obviously, too, there was from the beginning a rod or rods in pickle for the 'money-changers', the financiers and the Stock Exchange. The N.R.A., on the other hand, was a composite growth, receiving elements from various sources and developing as it went along. This was true also of the currency policy of the Government. If lack of preparation led to inconsistencies, absence of precedent was naturally a yet more predisposing cause. Old methods had led to the present pass. Now was the time for new methods to be tried. But pioneering involves a greater liability to mistakes, especially in the domain of economics. Accustomed roads will not lead to Eldorado, but untried paths may prove devious and arrive at unexpected destinations. Under these circumstances, some inconsistencies were only to be expected in so large a legislative output.

It is impossible to make any exact classification of the measures according to their nature. Some of the Acts deal exclusively with the grant or administration of relief. Others are measures of recovery which also provide relief. The N.I.R.A. contains all these different elements in itself.

Direct relief is provided by the Unemployment Relief

Act of March 31 and the Federal Emergency Relief Act of May 12, generally known as the Wagner Act. The Civilian Conservation Corps was established under the first of these Acts. The strength of the Corps is about 265,000, and it consists of a number of bodies, each of 200 to 300 young men. They are selected from the unemployed and are placed in camps under a quasi-military discipline. They live in tents or in hutments, and are taught rough timber-work and road-making in the various State forests and reservations. The Wagner Act provides for the grant of $500 million for relief of the unemployed, half of this sum to be granted unconditionally on the basis of need, and half to be allocated to States on the condition that an equivalent sum in each case is provided by the State Government. A Federal Administrator of Relief was appointed to superintend the grants.

The execution of Public Works is, of course, a measure both of relief and of recovery—of relief by providing employment and of recovery in so far as it increases the money in the hands of the public or quickens its circulation, or both.

The most prominent scheme of Public Works is that in the Tennessee Valley. The object of this project is to reclaim a considerable area of land on the Tennessee River and to complete the 'Muscle Shoals' dam and electricity scheme. Incidentally one may note at least a seeming inconsistency between a relief policy which reclaims an area of land at considerable cost, and the agricultural policy of the Government which restricts the cultivation of land already in use.

Emphasis has already been laid on the burden of internal mortgages and other debts. The object of the Home Owners Loan Act and of the Emergency Farm

Mortgage Act is to provide the means by which these burdens may be eased. To the owner of the mortgaged home or farm these Acts are indeed measures of relief. Their object is also to promote recovery. The interlocked indebtedness throughout the United States is like an ice-jam. Until it thaws, the streams of ordinary commerce will not flow freely. Every action of the R.F.C. or other loan corporation which liquefies some frozen debt sets a fresh trickle in motion and increases the forces of recovery. The Farm Credit Act provides further credit through the instrumentality of a new Production Credit organisation to assist farmers to finance their production.

The two outstanding 'recovery measures' of the 1933 session of Congress are, of course, the National Industrial Recovery Act—and the A.A.A. or Agricultural Adjustment Act. They are not discussed here, because later chapters are devoted to them.[1] Although they are important measures, they by no means constitute the whole of the Recovery Programme. That programme had two main objectives. One was the promotion of recovery by concentration on specific objects —the stimulation of industry and of agriculture which is the field of the N.I.R.A. and the A.A.A. The other objective consisted of an attempt to raise the general level of domestic prices by monetary methods and thereby to lighten the burden of debts, mortgages and similar obligations. This policy was only evolved gradually. Without access to the secrets of the White House, no account which is free from question can be given of that evolution. A reasonably accurate idea, however, may be formed from a study of Executive

[1] See Chapters IV and V for the N.I.R.A., and Chapter VI for the agricultural policy and administration of the Government.

Orders and Presidential and other addresses during this period. In the early days of the present Administration there was no indication of any intention that the American currency would be deliberately depreciated. As the session advanced, however, a new orientation was given to the currency policy of the Government. A rapid rise in internal prices became an avowed objective, and the Administration turned from the idea of any immediate concerted international action to a more nationalistic policy. This subject is discussed in detail in a later chapter under the heading of 'The Dollar'.[1] Here it is sufficient to emphasise again the two sides of the recovery policy as it emerged at the end of the session of 1933, the one general and monetary; the other dealing specifically with agriculture and industry.

Measures of another kind were those in which reform or reconstruction was the primary object. The Emergency Banking Act and the Economy Act were, each in its way, measures of reform, but the reason for their introduction was to meet particular needs of the moment. The N.I.R.A. was also a reform measure. Miss Perkins, the Secretary of Labour (who corresponds to the British Minister of Labour) and other social reformers were largely responsible for the provisions in the Act which enable child labour and sweating to be dealt with effectively. The outstanding reform measures of the session, however, were the Securities Act and the Banking Act of 1933, commonly known as the Glass-Steagall Act. The purpose of the Securities Act was described by President Roosevelt in the following words:

> If the country is to flourish, capital must be invested in enterprise. But those who seek to draw upon other

[1] Chapter VIII.

> people's money must be wholly candid regarding the facts on which the investor's judgment is asked. To that end this Bill requires the publicity necessary for sound investment. It is of course no insurance against errors of judgment. That is the function of no Government. It does give assurance, however, that within the limit of its powers, the Federal Government will insist upon knowledge of the facts on which alone judgment can be based.

The object of the Glass-Steagall Act as officially described in its title is "to provide for the safe control and more effective use of the assets of banks, to regulate inter-bank control, to prevent the undue diversion of funds into speculative operations and for other purposes". Critics differ as to the merits of these measures. In some respects they went too far; in others they were fully justified by the events that led up to the depression. Some of these points are discussed at a later stage,[1] when the banking situation is dealt with as a whole. In this introductory chapter it is only necessary to note the general nature of these measures; how they came to find a place in what was essentially an emergency session; and the inferences which can be drawn from this fact about the general character of the Administration. They are essentially measures of reform. They were not dictated by any immediate emergency. They were not intended to stimulate recovery. Indeed they retarded it. At a moment when confidence, which inspires enterprise, is a prime motive force in recovery, they created uncertainty and apprehension among leading business men and financiers. Why, then, was not their introduction deferred until a more prosperous season? When improvement was well started and the tide of business flowed strongly, measures of this kind,

[1] Chapter IX.

it was urged, even if severe, would not prejudice recovery. The tide would then be flowing too strongly to be checked. But why now? Why not delay? The answer is clear. In the spring of 1933, there was such a flux of opinion, such a memory of hardships barely past, that these reform proposals, if introduced, were certain to be carried, and once carried might prove a precedent for others. But if a stay were made until prosperity had returned, opposition would gather, and the cry: 'Things are all right again, leave well alone' might gain many adherents. It is difficult to believe that this was not realised by the Administration. The President was bent on carrying out certain reforms. Circumstances and inclination alike were in favour of 'action—and action now'.

2. THE SECOND SESSION

The second session of the 73rd Congress met on January 3, 1934, and sat until June 18. It was altogether less spectacular than the first session, but it was also fertile in legislation. A number of important Acts were passed, and they will be discussed individually in connection with the subjects with which they deal. Leading measures and Presidential statements included:

Presidential Message on the Budget	January	4
Gold Reserve Act	,,	30
Independent Offices Act	March	28
Cotton Control Act	April	21
Presidential Message on War Debt	June	1
Securities Exchange Regulation Act	,,	6
Reciprocal Tariff Act	,,	12
Silver Purchase Act	,,	19
Loans to Industries Act	,,	19
National Housing Act	,,	27

The bare list of measures placed upon the Statute

book cannot convey an adequate impression of the nature of the second session. Its atmosphere was very different from that of the previous year. Congress was in a changed mood. The crisis was becoming more and more a thing of the past. Approaching Congressional elections cast their shadows before. Democrats were less ready to accept without question the will of the President. Republicans acted more freely upon the maxim that the duty of an Opposition is to oppose, and both parties were ready to press forward with measures which were mildly described as being of greater electioneering value than benefit to the public.

The Presidential message on the Budget, with its staggering figures of expenditure, marked the opening of the session. It was followed by the Gold Reserve Act, which stabilised the dollar and created the Stabilisation Fund. The history of both these measures is discussed in detail in later chapters. The Independent Offices Bill, which was introduced on January 12, provided the sequel to the cuts in the veterans' 'bonus' which had been made a year previously, and it was responsible for the one serious rebuff which the President received at the hands of the 73rd Congress. This Bill contained a provision for restoring one-third of the reductions which had been made at the same time in the salaries of officials. The Senate and the House of Representatives jumped at the opportunity for restoring the cuts in the veterans' 'bonus' as well. There was no similarity between the two payments and there was no justification for their proposed action; but with the elections in prospect, Congress was not to be deterred, and restorations to the extent of $228 million were finally passed by the necessary majorities over the President's veto. Of the Democrats, half the Senators

and three-quarters of the Members of the House joined in the vote to override a Democratic President. Of the Republicans who so recently had been shocked by the extravagance of the Budget, only two Members in the House, and not a single Senator, remained faithful to the cause of economy.

Throughout the session pressure of another kind was constantly exerted on the President. The champions of inflation and of the remonetisation of silver were continuously active. An amendment to the Gold Reserve Act, requiring the purchase of silver on a large scale, was narrowly defeated in the Senate. In March—a month after the passage of this Act—the Secretary to the Treasury, speaking before the Banking and Currency Committee of the Senate, asked for a respite from fresh currency legislation for a year, during which experience could be gained of the working of the measures which had been passed. The House of Representatives replied on March 19 by passing the Dies Bill, which proposed to exchange agricultural products for foreign silver. This was resisted by the Administration, and eventually a respite was obtained by agreement upon a compromise measure—the Silver Purchase Act.[1]

The middle of the session was occupied very largely with the controversy over the Securities Exchange Bill, which is discussed in the chapter on Wall Street.[2] Two other Bills which were under discussion at the same time are interesting. Early in April a Bill was submitted to Congress which contained amendments to the Agricultural Adjustment Act. Certain provisions in the Bill empowered the Secretary to license producers of existing crops of certain 'non-basic' or less important agricultural commodities, and to apply

[1] See Chapter VIII. [2] Chapter IX.

quota systems to some 'basic' products. This measure was violently resisted by the more conservative members of both parties. One Senator described such bureaucracy and Government interference as "better suited for Soviet Russia than for America, where we still have, at least in theory, a written Constitution". The second measure—the Loans to Industries Bill—was the result of a letter sent to the chairmen of the Banking and Currency Committees of Congress by the President, which pointed out the difficulties encountered by the "medium-size man in industry and commerce" in obtaining small sums for capital purposes. The Act which was eventually passed to meet this difficulty provided for advances for such purposes to an amount exceeding $500 million, of which the greater part was to be found by the R.F.C.

These two measures and their British counterparts provide an amusing instance of the working of the popular mind. The Agricultural Bill so violently stigmatised as socialistic in the American Senate has its counterpart in England, where, under a predominantly Conservative Government, it has been enacted that no unlicensed person may grow hops—and quotas are imposed on the supply of pigs for bacon. On the other hand, here, as in America, the need for medium-term credit has been appreciated; but it has been met in this country by the formation of a 'Credit for Industry Corporation', which has been created by private enterprise, with the goodwill of the Bank of England and of the commercial banks. The proposal to set up a Government Department here to supply loans to the 'medium-size man' would probably have raised an outcry against the socialisation of finance.

The last days of Congress were very congested and,

in the end, a number of Bills were dropped. The Silver Purchase Bill was eventually passed and approved on June 19. The Reciprocal Tariff Bill, which was based on the special Presidential message of March 2, granted the President power for three years to raise or lower existing duties by 50 per cent without reference either to Congress or the Tariff Commission. After consideration by both Houses this measure was eventually passed and was signed by the President on June 12. This Act is another instance of the President being granted a discretionary power for which there was no previous parallel. The real importance of the Act will depend upon the degree and the manner in which the power is exercised. It is in itself a recognition of the fact that no modern country, however great and diversified, can be wholly self-sufficient.

The most important recovery measure of the whole Session was the National Housing Act. This long and complicated measure is described in a later chapter.[1] It was introduced on May 14, 1934, and was pressed forward by the Administration during the last congested weeks of the session. Delegates of the two Houses met in conference on June 16, in order to resolve their differences upon the Bill, and the meetings were continued on June 18, while the House of Representatives, its labours finished, waited to adjourn. In the Senate, on the other hand, the Democratic leader had been kept busy, staving off one proposal after another which might have led to the adjournment being further postponed. At length the conference came to an agreement. The National Housing Bill was finally passed in the form which the Administration desired.

Within one hour of midnight on June 18, 1934,

[1] See Chapter VII.

the Senate and the House of Representatives brought their labours to an end—the Senate after a hectic day, the House after an interlude of merry-making. The 73rd Congress stood adjourned. It was fitting that the last moments of a historic Congress should witness the passing of a measure of the first magnitude.

CHAPTER IV

The N.I.R.A.

ORIGIN AND NATURE

Of all the activities of the new Administration, the N.R.A.—or National Recovery Administration—which administers the N.I.R.A., has riveted public attention in America the most powerfully. The N.R.A. became the leading feature in politics the moment the Act was passed which created it, and it has been a leading feature ever since. Outside the United States, business or financial interests may have made the gymnastics of the dollar a matter of poignant preoccupation to a certain number of business men, but beyond this limited class, few people know of any individual activity of the American Government other than the N.R.A. To most of them it represents in a loose way the whole activities of the present Administration. Nor is this a matter for surprise. The N.I.R.A. is the most prominent and the most interesting of all the statutes of the special session of 1933. It is an epitome of the many-sided nature of the Administration and its distinct and differing objectives. It is a relief measure, a recovery measure, a reform measure, and also—who knows?—a measure of permanent reconstruction, all rolled into one and conceived on a grandiose scale. It commands the attention of the great majority of American citizens because the industrial system which it established enters into the

daily life of each of them, as employer, or worker, or consumer. (How significant it is that mention of the consumer naturally comes last!)

The present chapter deals only with that part of the N.I.R.A. which contained the provisions under which codes for industries were established. The second part of the Act—Title II—empowers the President to expend $3300 million on public works. It was advocated by those who desired 'work relief' on a large scale and also by modern monetary theorists who support the execution of public works in time of depression as a means of expanding purchasing power. This part of the Recovery Programme is discussed in Chapter VIII, together with the work of the Civil Works Administration which was established at a much later date. The two policies—of industry and public works—were regarded as a team, harnessed together in the joint effort of pulling the waggon of Recovery. In the words of the President, after signing the Act on June 16, 1933:

> Between these twin efforts, public works and industrial re-employment, it is not too much to expect that a great many men and women can be taken from the ranks of the unemployed before winter comes. It is the most important attempt of this kind in history. As in the great crisis of the world war, it puts a whole people to the simple but vital test. Must we go on in many groping disorganised desperate units to defeat, or shall we move as one great team to victory?

In the spring of 1933, when the new Government came into office, Washington was filled with people of diverse views and interests. These influences affected the form and nature of the Bill which was then taking shape and which was to become the N.I.R.A. It is due

to them that, while the Bill was primarily designed as a recovery measure, it has also tried to effect a number of other objects. A description of these influences is given in this and in the following chapter, as without it the nature and consequences of the Act cannot be properly appreciated. A sketch then follows of the provisions of the Act and of its administration; of the institution of 'industrial self-government' under 'codes of fair competition' and of the 'Blue Eagle' campaign by means of which a temporary substitute, the President's Re-employment Agreement or 'Blanket Code' was set up while codes were in the making.

The working of the Act raises several difficult questions. "Has it improved conditions of labour, and to what extent?" "Can it check excessive competition and price-cutting and at the same time protect the public from excessive prices?" "Is it possible by law to create a new set of relations between labour and capital, and what is the result of the attempt?" A brief account is given of each of these problems and of the developments that at present appear to be most likely. Lastly, a provisional answer is given to the main question—"Has the N.I.R.A. been a success?"

Public men and social reformers, employers and trade unionists, economists of many differing creeds and persuasions—all these and many others were in Washington in the early days of the new Administration to voice some view or to promote some interest. One of the most powerful of these formative influences was an opinion which has recently found an increasing number of adherents both in Great Britain and in the United States. It is the belief that too much emphasis has been laid on the part played by the producer in industry and too little on that of the consumer. Im-

provements in production have too often resulted in the dismissal of men on a large scale, followed by destructive competition and by wage reductions. The result has been that the consuming power of a nation lags behind its productive power. "Increase wages and decrease hours. Purchasing power will rise. Industry will be stimulated and unemployment will decrease. A way will then be found out of the depression." These ideas were widely held and had already found expression in the United States in a private Bill introduced by Senator Black early in the Session.

Manufacturers and trade union leaders, for different reasons, were both ready to accept the Bill. Trade unionists welcomed a limitation of working hours. The Bill was also their opportunity to obtain a 'place in the sun' through a recognition of trade unions which received the *imprimatur* of the Government. They obtained it in the now celebrated Section 7 of the Act. Employers had little liking for a limitation of hours and still less for trade union recognition. They had suffered acutely, however, from extreme price-cutting, from which the anti-trust laws (the Sherman and Clayton Acts) had barred most ways of escape. If they could obtain some form of industrial self-government and freedom from the anti-trust laws, they were willing to risk the possible consequences of trade union recognition.

Social workers and reformers, among whom Miss Perkins, the able and energetic Secretary of Labour, was the leading figure, were actuated by more altruistic considerations—the desire to stop sweating and to improve the working conditions of the people in other ways. They were ready to push for a measure under which these ends might be attained. Further, the insertion of

provisions under which conditions of work could be regulated gave an opportunity of securing the abolition of child labour and of promoting similar reforms. Lastly, there was an influential body of opinion headed by economists, who advocated measures which would 'put a bottom' into industry. In their view, competition carried to inordinate lengths accentuated the deflationary movement and increased the depression. Anything which would peg the deflation successfully, such as a system of minimum wages and maximum hours, would be a boon and a blessing.

This catalogue does not exhaust all the different currents of thought which influenced the making of the Bill. It opened a vista of possibilities to economic planners of every variety, from those who would end, to those who would merely mend the capitalist system. Enough has been said, however, to show the variety of opinions which were voiced both within and without the Administration. It was a time of common effort in a national crisis and the attempt was made to meet the views of all who were willing and able to give valuable co-operation, and to weld them together. The result was a recovery measure. It was many-sided. It could not be otherwise. The Act has as many strains in its pedigree as the dog in the *Chantecler* of Rostand, which thus describes itself:

Je suis un horrible mélange!
Je suis le chien total, fils de tous les passants!

The declaration of policy with which the Act opens is proof enough of this and is also a key to the understanding of many of the difficulties which have since arisen.

It is hereby declared to be the policy of Congress to remove obstructions to the free flow of interstate and foreign

> commerce which tend to diminish the amount thereof: and to provide for the general welfare by promoting the organisation of industry for the purpose of co-operative action among trade groups, to induce and maintain united action of labour and management under adequate governmental sanctions and supervision, to eliminate unfair competitive practices, to promote the fullest possible utilisation of the present productive capacity of industries, to avoid undue restriction of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labour, and otherwise to rehabilitate industry and to conserve natural resources.

The method by which the Act proposed to effect its object was by enforcing on each trade or industry the observance of fair practices and conditions. Such practices and conditions vary greatly in different industries. The Act, therefore, contemplated the establishment for each industry of a suitable set of regulations, which was called a 'Code of fair Competition'. The methods by which the codes were to be formed, the nature of the conditions to be embodied in them, and the wide discretionary powers granted to the President can best be understood from a brief analysis of the provisions of the Act itself.

Formation of Codes.—The normal method contemplated by the Act is for the initiative to come from within an industry in the form of an application for a code by a trade association, labour organisation, or a group of individuals properly representative of the industry. If an industry refuses or neglects to make application, the President is empowered to impose a code upon it which will possess the same validity as a code made in the usual way. Every code must be examined

before it is approved and those who may be affected by it have a right to be heard at this examination (Section 4).

Conditions.—The codes must be so designed that they do not promote monopolies or discriminate against small undertakings. The President may impose conditions for the protection of consumers, competitors or employees or for any purpose that may seem to him in the public interest. He may also grant exemptions in whole or in part from the conditions in any code (Section 3).

Enforcement.—Violation of the standards approved in any code is to be held an unfair method of competition within the meaning of the Federal Trade Commission Act (Section 3) and is punishable by fine or imprisonment (Section 9).

Anti-Trust Laws.—Any approved code or any action taken under it is exempted from the provisions of the anti-trust laws (Section 5).

Recognition of Trade Unions.—Employees are to have the right to organise and bargain collectively through representatives of their own choosing without interference from the employer. No constraint may be placed upon employees to join a company union or to refrain from joining any independent union of the workmen's own choosing (Section 7).

Supplementary powers granted to the President are many and far-reaching. They include the following:

(i) *Agreements.*—The President may enter into agreements with persons engaged in any trade or industry or may approve agreements between such persons (Section 4 (*a*)). This was the authority for the celebrated 'Blanket Code'.[1]

[1] See Appendix B.

(ii) *Licensing.*—If it is proved that there are activities in any trade or industry which are contrary to the policy of the Act, the President is given the power to prescribe that no one shall carry on the trade or industry in question except under licence (Section 4 (*b*)).

(iii) *Conditions of Work.*—The President can prescribe conditions of labour, including maximum hours and minimum wages (Section 7).

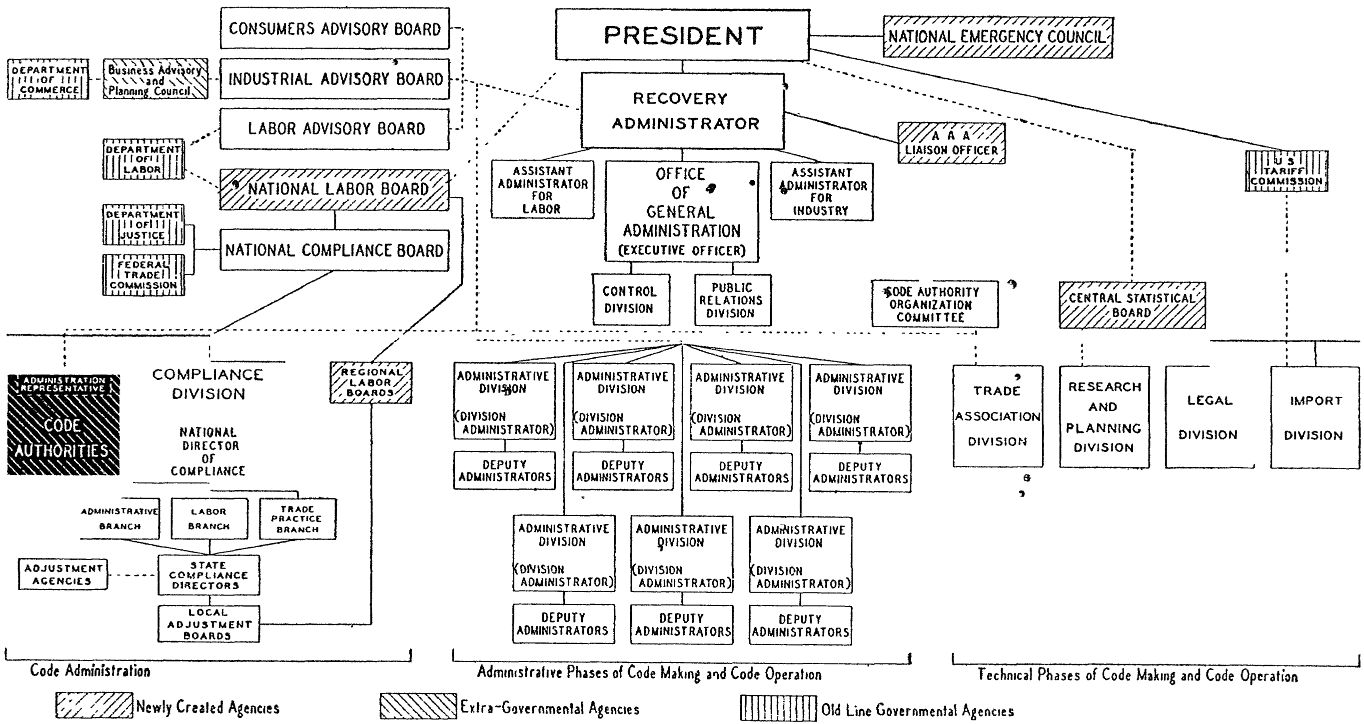
(iv) *Tariffs.*—The President may, after investigation by the Federal Tariff Committee, forbid the importation of any articles which prejudice the maintenance of any approved code or agreement or may subject them to any regulation, including the imposition of quotas and tariffs (Section 3).

(v) *Delegation of Powers.*—The President may delegate any of his duties (Section 8). Under this provision, General Johnson was appointed 'Recovery Administrator'.

(vi) *Cancellation, etc.*—The President may at any time cancel or modify any approval, order, licence, rule or regulation under this part of the Act with reference to any agreement, code or licence (Section 10).

The far-reaching character of the measure is obvious at a glance. The most unprecedented provision was that which empowered the President to prohibit any trade or industry being carried on except under licence. Criticism of this provision was so general that it was limited to one year only. It was never used and it has not been renewed. The validity of the measure as a whole is limited to two years, but its extension is almost certain. Far-reaching as the Act may seem on a cursory view, it is more so when carefully examined.

Administrative Organization of the N.R.A.



From 'The A B C of the N.R.A.', published by the Brookings Institution. Since the date of this publication the National Labour Board, now the National Labour Relations Board, has been made wholly independent of the N.R.A.

With one or two exceptions the use of the wide powers granted to the President is discretionary. No definite scheme or even policy in the ordinary sense of the term is embodied in the Act. The statement in the first section is not so much a declaration of policy as a brief description of Utopia, with a selection of travellers' aids to facilitate the journey thither. Most important of all is the fact that the latitude of action allowed to the President under the Act is so wide that any policy and indeed any reorganisation of industry may grow out of it. This is a statement of facts and not by any means a criticism. Old and trodden paths have been deserted. Of necessity, therefore, new trails must be blazed. Under such circumstances, mistakes may be made by the wisest and steps may have to be retraced. What more foolish then than to preclude the possibility of so doing by having the Act drafted too tightly and with too meticulous a precision?

The N.I.R.A. became law on June 16, 1933. The task of carrying it into effect was assigned to a new department, known as the National Recovery Administration, which was created for this particular purpose, in much the same way as the Ministry of Munitions and other departments were extemporised in England during the war. The head of the department is the Recovery Administrator, who is a member of the Executive Council, a kind of enlarged Cabinet which includes the heads of all the principal departments. A large staff is employed, which contains a number of Deputy Administrators and several advisory boards on special subjects. Local offices have also been established throughout the country. The accompanying chart shows the nature of the organisation.

The first duty of the N.R.A. was to decide upon the

form of industrial organisation which was most suitable for carrying out the purposes of the Act. The decision reached was in agreement with ideas which had of late been very generally advocated. Each trade or industry was to be turned into a self-governing unit with a constitution and a governing body of its own—its constitution to be the 'code of fair competition', and the 'code authority' its governing body. The Government was to be represented on the code authority and to hold a supervisory position. Labour was to have a voice in what was done, and so were representatives of commerce. The control, however, was clearly intended to be placed in the hands of the employers in the industries concerned. In the words of General Hugh Johnson, the Recovery Administrator, trade associations, instead of being barely-tolerated organs, became "a fully implemented arm of Government to police a self-created law-merchant, under close supervision, but with Government interference only when the boundaries set by the law are overstepped".

Code-making began immediately. The extent of the task may be gathered from the fact that 496 codes were approved during the ensuing year. The industries for which they were formulated vary from the very great to the infinitely little. There is one code for the iron and steel industry and one for the lumber industry, with its wide ramifications. Makers of powder-puffs and of slide-fasteners each have their code, and so do the 'fly-swatters'. The codes invariably provide for minimum wages and maximum hours of work. They may also contain an infinite variety of provisions which deal with trade practices as between employers, conditions of work, and industrial relations.

The lumber industry code and the 'fair practice amendment' to the investment bankers' code are each as long as an Act of Parliament of thirty pages. The stages in the evolution of a code are numerous, but they are not excessive, when it is remembered that the fortunes of an industry, the well-being of its workers and the interests of consumers depend upon the code being properly constructed.

A number of sub-divisions of the N.R.A. were set up in order that the hearing of different applications might proceed concurrently. Even so, code-making was found to be a slow business and took longer than was anticipated. A single code sometimes took weeks to negotiate. The Cotton Textile Association was the first industry to make application, but its code—the first to be completed—was not signed until July 15, 1933.

Meanwhile, prices were rising rapidly in anticipation of the obvious fact that when the codes were approved the new conditions established under them would add materially to the costs of production. It soon became clear that, unless some temporary safeguard could be provided, industries which were already under the codes would suffer unfair competition from those which were not. It was thus that the President's Re-employment Agreement, commonly known as the P.R.A. or 'Blanket Code' came into being. It was, in fact, not a code at all, but a personal agreement between the President and the individual employers who signed it. It contained the essential provisions of a code under the Act, but in a form so generalised that it could be signed by any and every employer. It had a further advantage. It was a voluntary agreement and could not, therefore, be declared unconstitutional. On July 27, forms containing the Agreement were sent out by the

million to all employers in the United States, with the exception of agriculturists. A spectacular campaign followed to ensure that its acceptance should be as complete as possible and it was conducted with tremendous driving power by General Hugh Johnson, who was a remarkable combination of the forceful and the attractive. Committees were appointed everywhere to push forward the good work. Meetings were held with bands playing and flags flying. It was like the autumn of 1915 in England, with its recruiting meetings under the Derby Scheme and the Derby Badge. The N.R.A. campaign created, in fact, a war-time atmosphere. War was declared on poverty and unemployment. The spirit of the people responded to the appeal. Employers large and small, from the head of the great corporation with 100,000 employees to the keeper of the small beauty parlour or restaurant—all rushed to get the 'Blue Eagle'—the badge of the N.R.A. Others rushed to harry those who had not joined up and to make them fall into line. It was a voluntary movement, but he was a stout fellow who resisted it. Fastidious persons might dislike all the 'ballyhoo' and 'hooroosh'—but it was successful. Ninety-six per cent of employers signed on. Before long, of course, it was found that the P.R.A. like a suit of clothes fashioned to fit everybody roughly, fitted few people well. Applications came in by the thousand for exemptions from or alterations to some particular requirement. Cases of evasion also arose. Both had to be dealt with, and organisations were extemporised for the purpose. The P.R.A. had this advantage, however, that it prevented unfair competition which might otherwise have been experienced between an industry working under a code with the consequent increase in costs, and an allied trade for which as yet no code had been

approved. The very inconvenience, also, of the 'Blanket Code' had its value. Not a few people who might otherwise have been coy in coming under a code preferred to do so rather than remain under the P.R.A. In this way, the position was held while the codes were being pushed forward. The P.R.A. had done its work, and achieved its object.

CHAPTER V

The N.I.R.A. (*continued*)

1. THE THREE PARTIES TO INDUSTRY

The autumn months of 1933 were occupied with code-making. Speed was essential, and the number of industries requiring codes was very great. It was recognised, therefore, that in the first instance, codes would be provisional in character and would be subject to revision. At the same time, it was necessary to secure a measure of general agreement on the important points which were common to all the codes and to combine this with flexibility of application to the circumstances of individual industries. The most important questions were those which concerned conditions of work, relations between labour and capital and methods of controlling prices.

In dealing with conditions of work, the principal steps taken under the Act were those which shorten hours of work and raise wages. In conformity with this policy most codes prescribe a forty-hour week for manual workers, while a longer working week, up to forty-eight hours, is permitted for clerical workers and for employees in retail trades. No attempt is made to insist on rigid uniformity.

In the automobile and electrical industries, for example, weekly hours are limited to thirty-five, while in other trades, particularly those connected with transport, they exceed forty. The forty-hour week is the

rule, however, and forms the basis for variations and exceptions of the kind with which every employer and trade union official in England is familiar. The nature of these exceptions can best be understood from an examination of the working of a typical code—such as that for the dyeing and cleaning industry. In this code the normal standard is adopted, but the weekly hours of work in a time of seasonal activity may be increased by five, provided that the average for the six months is not exceeded. Overtime, which is expressly barred in some codes, is allowed in order to deal with emergency and repair work, and is paid for at a rate-and-a-third. Preparatory, ancillary or supervisory work in the dyeing and cleaning industry is classed with clerical work, for which a forty-eight hour week is allowed. Generally speaking, the standard working week in the United States has been made much shorter than in other countries, especially for manual workers, but the nature of the exceptions and variations from the standard are much the same.

The system of minimum rates of wages follows very similar lines. Certain standard rates for unskilled labour are generally but not uniformly adopted, and these form the bases upon which differential rates of various kinds are calculated. The minimum rate varies from 30 to 40 cents an hour for a manual worker; and for clerical workers from $12 to $15 a week. The variations in rates are very similar to those which have been established in a number of trades in England by agreements between employers and trade unions, if allowance is made for the size of the country and for the prevalence of negro labour in the Southern States. In England rates of wages for both unskilled and semi-skilled workmen in London differ from those which are paid in

other cities and in country districts. In the United States there is a similar variation in wage-rates in different parts of the country, and in addition they vary according to the size of the town in which the works are situated. A typical example is again afforded by the dyeing and cleaning industry. Under the code for that industry the weekly rates of clerical workers in the southern half of the country are: $12; $12.50; and $13—according as the population of the city is under 100,000; between 100,000 and 500,000; and over half a million. In the northern half of the States the rate in each case is raised by one dollar. This simple differentiation between North and South is found in a number of other codes in which those for the textile industries are prominent. In some industries, the system of differential rates is much more complicated. In the Iron and Steel Code there are seven different rates for unskilled labour, varying from 40 cents an hour in Pittsburg and the North to 27 cents in Birmingham, Alabama, and 25 cents throughout the rest of the Southern States. These differences represent a range of wages from 40s. to 64s. for a forty-hour week. The more skilled grades of labour are of course paid at higher rates, and many codes contain the express provision that these rates should be increased, so as to preserve the difference in grade.

Women have benefited by the fact that in most codes no difference is made between the rates paid to men and women when they are performing the same kind of work.

In addition to the establishment of minimum wages and maximum hours, a number of other social reforms have found a place in the codes. The most important of

these is the abolition of child labour. The controversy over child labour is of long standing. Previous attempts had been made to deal with the question by Federal legislation, but the laws passed in 1916 and 1919 were declared unconstitutional on the ground that the matter was within the exclusive jurisdiction of the State Governments. An amendment to the Constitution embodying this reform was proposed in 1924 but it has not yet been ratified. Under the N.R.A., however, child labour has been abolished in nearly every industry. The employment of children of under sixteen years of age in factories has been directly prohibited in most codes, and in some dangerous trades the age is raised to seventeen or eighteen. Other reforms effected by the codes include the prohibition of homework in certain of the clothing trades, while attempts are made in the textile industry and in other trades to stop the attempt to make up for the reduction in hours by speeding up work.

Owing to the haste with which the early codes were framed and approved, they exhibit a lack of uniformity which has sometimes led to the establishment in the same district of different rates of pay for the same class of work. British industrialists will readily understand how much discontent can be caused in this way. For the same reason, in the United States, employers and workers are agreed in pressing for the introduction of a greater measure of uniformity into the codes. They differ, however, as might be expected, on the rates of pay or the number of hours. Trade unions, despite a number of criticisms on specific points, admit the advantages which have been gained but urge that the reforms should be carried further. In their view, minimum wages for unskilled labour should be increased to $30 a week, and hours of work should

be limited to thirty. Employers are opposed to both these proposals on the ground that a further rise in costs would react on prices. This in turn would lead to a fall in consumption and in employment and in particular would retard the recovery of construction and the other capital goods industries. There is some truth in the contention that the individual workman who was already in employment is not much better off, since the increase in hourly rates of pay has been offset by the decrease in the number of hours worked and the increase in the cost of living. In addition, however, to the substantial amount of employment which has been provided by the Act, for those who were out of work—variously estimated at between two and three millions in October 1933—the general improvement in working-class conditions since March, 1933 has been very marked. Real wages—that is to say, the value of wage-rates after allowance has been made for changes in the cost of living—have increased by nearly 25 per cent. Real weekly earnings have risen by more than 39 per cent. The weekly hours of work were much curtailed at the beginning of the period, owing to the large amount of short-time which was then worked. They increased rapidly in the early summer of 1933 during the short-lived boom. Since then, under the limitations imposed by the codes, they have been reduced and they are now two per cent less than in March, 1933. During the same period factory employment increased by 37 per cent and, high as the total of unemployment still is, it shows an improvement of more than three millions since the date on which the new Administration came into office.[1]

[1] See also Chapter X and Appendix C IV.

One of the most difficult problems with which the N.R.A. has had to deal is that of the relations between Capital and Labour. Before the war, the membership of trade unions in the United States amounted to two and a half millions, or just over six per cent of the total number of workers. It reached a peak of five millions just after the Armistice and had sunk to barely two millions at the beginning of 1933. Besides the four great 'railway brotherhoods' there are few trade unions of any great importance, except in the clothing, mining, building and printing trades. This lack of growth is not surprising. Most of the American unions which had come into being were craft unions and were unwilling to change their character. This was a serious handicap. The average labour turnover of a factory in the United States is much greater than it is in England and rapid improvements in machinery often tend to supplant skilled by unskilled labour. The effect of this conservatism on the part of trade unionists and of the absence of any general and sustained attempt to organise unskilled and semi-skilled labour, has been to prejudice the growth of the craft unions themselves and to retard the whole trade union movement. The lack of growth in membership is not so serious a feature, however, as the small regard in which American trade unions are held not only by the general public but by Labour opinion. Moreover, with one or two well-known exceptions there has been a conspicuous dearth of real leaders. These facts explain a number of the features in labour developments under the N.R.A. which might otherwise be misunderstood by those who are only acquainted with British labour conditions.

The interests of Labour were not without representa-

tion in the N.R.A. Mr. McGrady, an old Labour man, was Assistant Secretary of Labour under Miss Perkins, and Assistant Administrator of Labour in the N.R.A. under General Johnson. Leading trade unionists—Mr. Green, Secretary of the American Federation of Labour, Mr. John Lewis and Mr. Hillman were members of the N.R.A. Advisory Board of which Dr. Wolman, who had long been an adviser of the clothing trade unions, was chairman. On the other hand, there was little direct representation of trade unions either in the formation or in the administration of the codes. Labour interests were adequately safeguarded in the preparatory stages of code-making, but in the majority of cases this was looked after by persons appointed by the Labour Advisory Board for the purpose. The American Federation of Labour—the A.F.L.—claimed that Labour representatives should be appointed as members of the new code authorities. It is doubtful whether this was ever really intended by the framers of the Act. Certainly the code authorities which contain Labour members are only a minute percentage of the whole number and on only four of these authorities do the Labour members sit as representatives of their trade unions. In some respects, representation on a code authority would be of advantage to a trade union. It might provide the opportunity for acquiring knowledge about the policy of the industry or questions of management, which would be useful in future bargaining. Such matters, however, are not as important as wage questions, and these are affected much more by the inherent strength of a union than by the presence of a representative on a code authority. In other words, the absence of such representation is not so much a material loss as a failure to acquire a new status.

The outstanding feature of industrial relations under the N.R.A. has been the recognition of the right to collective bargaining by trade unions. Indeed, three-quarters of the strikes which occurred in the autumn of 1933 were due to disputes as to the relative positions of the parties. The wording of the section of the N.I.R.A. which deals with this matter is of importance:

> Every code of fair competition, agreement and licence approved, prescribed or issued under this title shall contain the following conditions: (1) that employees shall have the right to organise and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labour, or their agents, in the designation of such representatives or in self-organisation or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection; (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organising, or assisting a labour organisation of his own choosing. (*Section* 7 (*a*)).

Trade unions welcomed the section, because it not only placed the right to free collective bargaining beyond dispute, but contained an implication that the right would be enforced by the arm of the Administration. It was hailed by John Lewis, the Secretary of the bituminous coalminers' union, as "a new charter of rights". Recruiting campaigns were started and strikes not infrequently resulted, as a result of differences not merely between employers and employed, but between competitive unions. Employers, on the other hand, minimised the effect of the section. Some asserted that while Labour was free to organise, they, as employers, were under no obligation to deal with the organisation so formed. Others endeavoured to intro-

duce additional words into the codes for their industries, which interpreted the section in the way they wished. The automobile employers managed to obtain the inclusion of a clause to the effect that employers were still free "to select, retain or advance employees on the basis of individual merit without regard to their membership or non-membership of any organisation". This clause raised strong objections, as it was regarded by trade unionists as a screen for victimisation, and further interpretative clauses were forbidden by the President. In most industries the words of the section were accepted without resistance or addition. The fear of victimisation indicates a possible source of trouble in the United States in the near future. In England trade unions are strong enough to deal with cases of victimisation. In the absence of trade union action, however, it is difficult to find an effective substitute. In America the law against victimisation is clear and unequivocal. An appeal to the law, however, is not likely to be effective, since victimisation, if it is clever, is not easily susceptible of proof in a court of law. The success which attended the really skilful mediation, backed by the prestige of the Government, in the automobile dispute in Detroit in the summer of 1934, seems to indicate that this is the best way of dealing with the matter, except perhaps in flagrant cases where argument is unavailing.

Another fruitful cause of disputes has been the formation or encouragement by large industries of 'company unions'—that is to say, unions restricted to employees of a single firm. Unions of this character exist in England and in some instances are very successful. But they are exceptional, and are never likely to become of any great importance in the labour world. In

America the position of the company union is quite different. They are supported by a large body of Labour opinion. By 1933, the membership of these unions had reached $1\frac{1}{4}$ millions, or more than one-third of the whole trade union membership. The strength of the support which they possess is also demonstrated by the results of ballots which were held recently under administrative supervision, which ensured a really free choice. Out of forty-five cases, the majority in twenty-nine voted for a trade union and in fifteen for a company union. There may be a real future for the company union in the United States. Trade unions, for the most part, are craft unions, small, inefficient and badly led, and they do not cater for unskilled workers. The objection to a company union, up to the present, has been the influence exercised by the management in its affairs. If this is removed and workmen are secured absolute freedom of action, a company union may be the most advantageous form of organisation for the men as well as for the industry. Moreover, if there are several large firms in an industry, each with its company union, the natural development will be for these unions to coalesce in course of time into one independent industrial union, which will be stronger and better led than any group of craft unions would have been.

By July, 1933, strikes had become numerous. Extensions of them on a large scale were apprehended. One method of averting them, which became increasingly employed, was the institution by a code authority of a Mediation Board within the industry. This procedure was not without precedent, as a similar organisation already existed in the Baltimore and Ohio Railway system. The first Industrial Relations Board under the N.R.A. was set up by the cotton textile code

authority and was composed of three persons—one appointed by the employers; one by the Labour Advisory Board; and one by the N.R.A. The next step was the creation of local branches with an appeal to the Central Board. The functions of the Board were gradually extended to cover all disputes whether arising under the N.R.A. or not. Similar boards have been set up in the bituminous coal industry and in the transit industry. They are responsible to the Recovery Administrator and not to the code authority.

The main instrument of mediation, however, was the National Labour Board.[1] It was created on August 5, 1933, and consisted of an equal number of well-known employers and trade unionists under the chairmanship of Senator Wagner. The work of the Board increased rapidly. It was enlarged from seven to eleven members and nineteen regional boards were established. It was separated from the N.R.A. and given an independent position. The scope of the Board was also widened to deal with all labour troubles and not, as at the beginning, simply with those arising out of differing interpretations of the N.I.R.A. Up to the outbreak of the Textile Strike on September 3, 1934, the Board appeared to have been singularly successful, partly through the prestige attaching to the Executive, which it represented, but largely through the wisdom and tact of its own behaviour. It endeavoured to secure that no action should be taken by either side pending investigation. Its policy was, if possible, to mediate rather than arbitrate and to obtain an agreement acceptable to the parties, even if it was not what the Board itself thought most desirable. Occasionally, when invited to act as arbitrator, it gave decisions, but not otherwise. The number of

[1] Now the National Labour Relations Board.

cases handled during the first six months of its existence is given in the Report made by the Board to the President and the results are shown in the following table. It is interesting to know that disputes concerning collective bargaining were three times as numerous as disputes over wages.

	No. of Cases	Workers involved	Settled	Result pending	Re-adjusted
National Labour Board	190	400,000	132	27	31
Regional Boards .	1628	514,295	1121	295	212
TOTAL	1818	914,295	1253	322	243

The future of industrial relations in the United States is a riddle beyond human reading. The most that can be done is to appreciate the forces which will shape it. This involves a recognition of the basic difference between American and British conditions. American industry is up to date in plant and in organisation; and in size it outstrips our own. On the other hand, American trade unions are half a century behind ours in development. The reason for this difference is well known. British industry and British trade unions have grown side by side. It is more than eighty years since Bright said that he would "sooner be under the Bey of Algiers than a Trade Committee". During those long years masters and men have become accustomed to one another's ways and have rubbed off one another's corners—sometimes painfully. A long course of development has produced a body of trade union leaders of unquestioned honesty; with a real sense of responsibility and with the capacity for representing the interests of their members. Some of them are men of broad views and of outstanding ability. In America,

extensive industrial development did not begin until the last quarter of the nineteenth century. It started with all the latest improvements of that day in plant and in organisation at its disposal, and its progress was extraordinarily rapid. But the voluntary growth of a trade union movement must be gradual. The organisation of human beings cannot be transplanted in the same way as manufacturing technique. Other conditions in the United States also were less favourable to the growth of union organisation than they were in this country. With the expansion of industry it was easy in America to rise from the ranks. A workman of ability had many opportunities and he was more likely to become a prominent industrialist than a Labour leader. This is one of the causes of the scarcity of good leaders of American trade unions. Recruitment of the rank and file was also difficult. Immigrants into America spoke all the different languages of the countries from which they came—an effective barrier to organisation. Not even a Boanerges could make a stirring speech to a polyglot audience.

Under the N.R.A. the attempt is now being made to create by law a relationship between employers and employed which, in England, has been the slow growth of more than sixty years. Unrest is an inevitable result, and strikes and rumours of strikes can hardly be avoided in the near future. It cannot be otherwise, with the new ferments that are at work in the labour world. That the N.I.R.A. has had a share in stimulating these ferments into activity cannot be gainsaid. It is not a question, however, whether troubles have been started which might have been permanently avoided. With the end of expansion in the West, the old safety valves have been closed, and a period of trade union

development is the inevitable sequel. It was only a question of time—a little sooner or a little later. As a result of the unfortunate textile strike in September, the President announced that in the coming month Conferences would be held with representatives of employers and employed. He stated that he would endeavour to obtain undertakings from them

> for the making and maintenance of agreements which can be mutually relied upon and under which wages, hours and working conditions may be determined, and any later adjustments shall be made either by agreement, or, in the case of disagreement, through mediation or arbitration by State or Federal agencies.[1]

The results of these conferences will be of great interest and with skilful mediation at early stages of a dispute many strikes may be averted. But the difficulties ahead are only too clear.

Price-control was the third of the main problems with which the N.R.A. had to deal. In the days of President Theodore Roosevelt, the growing power of trusts had led to the Sherman and Clayton Acts—known as the anti-trust laws. These Acts were construed strictly, and price-fixing and restrictions on production were declared illegal. By 1928, the wheel had turned full circle. The depression had proved that price-cutting could be as disastrous as 'price-boosting'. Excessive competition and wage reductions had accentuated the slump, and public opinion supported industrialists who wished to establish stability in prices and who asked for release from the undue rigidity of the anti-trust laws. The principle of minimum prices was almost universally accepted. It was accepted by the Consumers' Advisory Board, and 260 of the first 400

[1] Radio speech by President Roosevelt, September 30, 1934.

codes passed under the N.I.R.A. contained provisions for maintaining minimum prices.

It was not long before the difficulties began to be felt which are inherent in such schemes. It could not be otherwise. In all capitalist countries attempts at price-fixing have speedily raised two difficult questions: "Can any workable method of price-control be devised which is of general application and is not confined to a few selected industries?" and "Can any such system protect manufacturers from being undercut and at the same time protect consumers from being overcharged?" The United States proved no exception to the general rule. As soon as it was attempted to put the principle into practice and to embody it in a code, difficulties began to multiply.

Price-fixing provisions in the codes assume many different forms, but for practical purposes they may be grouped in four classes: those which fix minimum prices and 'mark-ups'; schemes which prohibit sales below cost; 'open price' arrangements; and measures for restricting output.

Restriction of output appears less frequently than the other methods of price-control and is employed, for the most part, in conjunction with them. It may take the form of quota systems; of restrictions upon new productive capacity; or of the limitation of machine-hours. The most important codes in which quotas are employed are those for the lumber and petroleum industries. As a temporary measure of relief when a whole industry is in a state of chaos, as in the case of the oil industry, quotas have been of great service. No proper provision, however, has been made by the codes which employ them to give an increasing share of production to lowcost producers. Limitations upon new capacity

are found in the codes for the iron and steel industry; for the cement industry, and for a number of the textile trades. The authority which approves the limitation is generally the Recovery Administration. If, however, the policy is intended to be permanent and not merely a temporary expedient, difficulties will obviously be experienced at a later stage in determining whether existing capacity—having regard to such questions as obsolescence—is in fact excessive. Machine-hour restrictions are most prominent in the group of codes connected with the textile and hosiery trades. This is a very flexible and easy method of controlling production. It is preferable to quotas in one respect, namely, that up-to-date equipment retains its advantage, but it is inferior to them in so far as quotas are transferable from the less efficient to the more efficient producers.

Price-fixing schemes and codes which simply prohibit sales below the cost of production are of various kinds. In the bituminous coal industry, the code merely enjoins that prices should be fixed on a scale that is fair and reasonable. In most cases, however, the prices are based on the cost of production, and the considerations involved are fundamentally the same as in those codes which are confined to the prohibition of sales below the cost of production without any specific reference to prices. At the first glance, the prohibition of sales below the cost of production and the encouragement of competition above that level seems an admirable arrangement and one that is fair to trader and consumer alike. But when a working definition of the cost of production is required for practical use in a code, the conception becomes vague and as elusive as a will-o'-the-wisp. Some codes contain no definition of cost at all. In a considerable number the average of costs in an

industry is taken as a basis. In some cases 'the lowest reasonable cost of production' is mentioned or 'the lowest cost of representative firms'. Only in a few codes, such as the lumber code, was any careful definition of costs attempted and in a number of instances this led to the inclusion in 'costs' of many items not usually so charged. As a result, the Consumers' Advisory Board and others complained that "in applying provisions against selling below what amounts to an average cost for an industry, some large price increases have been obtained . . . and the balance has been tipped very heavily against a net increase in real purchasing power". The Board urged that the cost of the individual producer should be taken as the basis, and this practice has been followed in a large majority of codes. This system, while it avoids the difficulties to which exception was taken by the Consumers' Advisory Board raises others which are just as formidable. If the word 'cost' means 'overall cost' as it has usually been interpreted in the codes, the prohibition to sell below such cost would make it illegal for any business to operate at a loss. This was a practical absurdity and was recognised as such. It led to the exception, which frequently appears, of allowing sales below cost for the 'purpose of meeting competition'. The moment, however, that such an exception is made, the provisions for minimum wages remain the only safeguard against the very wage-cutting which was the worst feature of the over-competition of recent years.

The other method of price-control is the 'open price' system. It consists of arrangements under which firms engaged in an industry report their prices, together with the discounts which are allowed and other material terms of sale, to a central body, such as the code

authority. The reporting firm is not at liberty to carry on business at prices other than those reported, until the lists have been revised or unless express permission is obtained. Such agreements avoid the difficulty of attempting to ascertain any cost of production. If they are to be successful, however, it is necessary that employers should be ready to work together. Otherwise, this type of arrangement will be frustrated by one or other of the numerous forms of evasion which are open to any trader who wishes to double-cross his fellows. He may misdescribe the goods which he supplies; give secret rebates or other discounts; make side bargains which give back part of the price; provide special services, conveniences of delivery or freight conditions; or agree to special penalty clauses in the contracts. Indeed, the ways of evasion are protean. Many codes expressly provide against some of these unfair practices, but their detection, proof and punishment constitute a problem by itself. On the other hand, if employers are prepared to act together, open price arrangements, as the Consumers' Advisory Board point out, may be a powerful instrument in arranging uniform prices and of exerting pressure to bring too low quotations up to the level of others.

As the inevitable results of the different systems of price-control became increasingly felt, it was not surprising that complaints multiplied. At the outset they came principally from employers, but as prices rose they began to be voiced in increasing volume on behalf of consumers. General Johnson, the Recovery Administrator, and his assistants were as alive as anybody to the shortcomings of the existing system, and invitations were issued to those affected by the codes to attend conferences in New York and in Washington at

the end of January and in the first week of February, 1934, in order to discuss all the issues connected with the N.R.A. This was a most unusual step, but its very boldness was skilful. It took the sting, although not the truth, out of much of the criticism.

Since these conferences, the difficulties attendant on price-fixing have become increasingly apparent and have been recognised both by public opinion and by the Administration. The whole problem of price-control was subjected to intensive examination within the N.R.A., and fundamental changes resulted. The first announcement of May 27, 1934, applied only to the service codes—that is to say codes for industries in which personal services are the principal feature. A second announcement of policy, which was made on June 7, covered the whole body of codes. It constituted a new attempt to steer a middle course between wilfully destructive price-cutting and provisions for price-control which lead to an undue enhancement of prices. The general tendency was strongly in the direction of freer competition. Price-fixing provisions and the prohibition of selling below cost were rejected. A system of 'open-price reporting' was accepted as the official policy. It was hedged about with safeguards and with provisions against combinations to maintain prices. On the other hand, if the prices reported were so unreasonably low as to threaten the stability of an industry or of wage levels, investigation could be made and correction required. In an emergency, minimum prices might be fixed, but only by the N.R.A. and at levels which were not deliberately calculated to secure a profit for the majority of enterprises.

Although the problem of price-fixing is not yet solved,

certain conclusions begin to emerge with some clearness. It is generally agreed that unfettered competition led to disastrous results in the recent slump. Too much attention, however, has been devoted to devising methods of price-fixing, without first determining more exactly what were the evils of price-cutting which it was sought to prevent. Similarly, before sales below cost were prohibited, it was desirable to have some clear and consistent idea of what was intended by 'cost' in this connection. The different descriptions of cost in the codes show that no such definite idea was ever formed. These two failings are responsible for much of the confusion and controversy which has since occurred. The principal evil of price-cutting consisted of reductions in wages and the lengthening, in some cases, of hours. This resulted in decreased purchasing power and a further fall in the demand for goods. In other words, it was the principal factor in creating the 'vicious deflationary spiral' of which so much has been heard. When costs are analysed it will be found that if wages, hours and conditions of work are securely pegged, at least three-quarters of the harmful effects of competition will be avoided. Indeed, in some industries, careful examination would show that the proportion is considerably higher. Standards of wages, hours and conditions of work have already been established under the codes. What is needed is a full and efficient enforcement of these provisions. If this were attained, price control, except for the protection of the consumer, could be confined to a few exceptional industries.

Concurrently with this change of policy, attempts were made to speed up the passing of the remaining codes. At the beginning of June, 496 codes had been

passed, which covered nine-tenths of the total number of workmen and codes were already in preparation or in contemplation for the remaining 262 industries. It was hoped that the whole code-making process might be completed by the end of the summer, either by the rapid approval of codes already in draft, or by the adoption either of a new model code, or of a code in force in some kindred industry.

Some simplification of the whole system was also very necessary. The haste with which codes had to be rushed through in the first instance prevented the body of codes presenting anything like an orderly system. They were inevitably a jumble. As a result it was difficult either for their administrators to be sure of acting fairly as between cognate industries, or for the scope of problems, as they arose, to be clearly defined and their essential elements analysed. In consequence, at the end of August 1934, an announcement was made that the whole of the industries working under codes had been reclassified in twenty-two groups, which in turn had been gathered into four main classes; the producing, fabricating, service and distributive industries. It was hoped that when allied or cognate industries were brought into the same group, it might be possible to amalgamate some of the existing codes, and to reduce the total from 682—at which it stood at the end of August 1934—to about 250. A simplification of this kind was a great step in advance, but a great deal remained to be done before the organisation could be placed on a satisfactory permanent basis.

Considerable changes were made within the organisation of the N.R.A. during the autumn of 1934. General Hugh Johnson retired from the position of Administrator in the last week of September. His re-

signation was the result partly of growing differences of opinion with other members of the Government and partly of the enormous strain of the past year. After his retirement the administration of the Department was placed under a Committee of five persons. At the same time, questions of general principle and policy were entrusted to a second Committee, consisting of the Chairman—Mr. Donald Richberg, the Attorney-General; the Chairman of the Administration Committee; and four other persons who were heads of Government Departments. The task before this latter Committee is one both of difficulty and importance. Much experience has been gained but, on fundamental issues such as the form which industry will finally take, and the proper methods of dealing with price-fixing and industrial relations, the situation was as plastic at the beginning of October, 1934, as when the N.I.R.A. was passed more than fifteen months previously.

2. IS THE N.I.R.A. A SUCCESS?

An attempt may now be made to give an answer to the question—"Has the N.I.R.A. been a success?" It is a question which has been asked times without number, and in a hundred forms during the last year and a half.

The N.I.R.A. has many other aspects than those which are purely material and economic. But as an experiment in economics applied to practical life on a national scale, it deserves special consideration.

The N.I.R.A. was primarily intended as a measure for promoting recovery. It endeavoured to achieve this end by an attempt to create purchasing power and to apply it as a stimulus to industry. The decrease of hours of work and the increase of minimum wages

under the Act simply mean that for the same amount of production a larger number of people are employed, and that the majority of them will be paid higher rates of wages than before. The immediate result is the payment in wages of a larger total sum in money. How far will this result in the stimulation of industry by increased purchasing power? If all wages were spent in buying goods and the prices of those goods remained the same (or at any rate did not rise in the aggregate as rapidly as wages) then more goods would be purchased; larger profits would be made by manufacturers through increased sales and decreased overhead charges; production would be increased; more men would be employed; and all this would, in turn, further swell the volume of purchases. The process would be repeated and trade would be started upon the upward spiral of recovery.

Was the policy of the N.I.R.A. likely to produce this result?

It must be remembered that the increased working capital rendered necessary by the provisions of the Act would not come like manna from heaven. It had to be provided by the employers themselves either by a bank loan or out of company reserves. In either case, this would increase the cost of production and it would lead to a rise in prices, unless it were counterbalanced by a large increase in orders and a corresponding decrease in overhead charges. Would that rise in prices neutralise or more than neutralise the effect of increased wages and purchasing power? Two distinct considerations are involved, each of them vital—the amount of the possible increase in prices and in purchasing power; and the time at which each would become effective.

In estimating the effect of the increase in prices, it

must be remembered that the increased cost of labour, direct and indirect, although important, was not the only item in the cost sheet. In other words, the percentage rise in prices would not necessarily be as high as the percentage rise in wages. As against this, the enhanced prices would have to be paid by the whole of the buying public. This includes many people whose incomes or wages had been increased only slightly, if at all, and whose purchases would be substantially curtailed. Again, it was not merely potential purchasing power, but purchasing power made effective by spending, which was all-important. Some of those, however, who received higher wages (and this applies also to any increased profits by wholesale or retail traders) would not spend them all, but would save some part of them in order to provide for future emergencies. In other words, part of the additional purchasing power which was created would not be effectively used in actually buying goods.

The time factor was also of importance. If the whole of the new potential purchasing power became effective first, the increase in sales so created might lead to an initial saving in costs which would more than offset the additional charges for labour. Production would expand and the improvement continue. This, however, was not likely to happen. While the manufacturer had to start paying the increases in wages at once, the benefit of the growth in purchases would only filter through to him gradually through the retail trader and the wholesaler in the form of increased orders.

The possibility of a rise in prices which would counteract or more than counteract the increases in wages was fully realised by the President. In his statement of June 16, 1933, outlining the policy of the

N.R.A., he made an appeal to employers to defer price increases. But was this really possible for any length of time? Reserves were exhausted in many cases after three and a half years of bad trade. Banks which had just emerged, somewhat battered, from a general bank closure were pardonably chary of lending money to industries which had of late shown a succession of losses. The vast proportion of the increases in costs could hardly be met otherwise than by an increase in prices. Even if this had been possible, moreover, it could only have been effected by a concerted endeavour and by self-restraint on a nation-wide scale. The bout of speculation that accompanied the passing of the N.I.R.A. effectively put this out of the question.

The net-effect of the N.I.R.A. as a recovery measure is more difficult to disentangle than the elements which go to produce it. It is possible to come to a conclusion with which most impartial observers would agree, but positive proof by facts and figures is rendered impossible by the number of forces besides the N.I.R.A. which have influenced the course of recovery. Furthermore, the trend of events has been obscured by speculative movements. Large orders of all kinds were placed in June and July 1933 in anticipation, as already mentioned, of the rise in costs and in prices which would occur as soon as the President's re-employment agreement and the codes came into actual operation. Cotton mills, steel works and other factories bloomed into a short-lived prosperity in those months. Then there came a sudden reaction. Depleted stocks had largely been filled and the spate of orders dwindled. It is, however, as unfair to judge the policy of the N.I.R.A. by the reaction as by the boom. Moreover, allowance has to be made for the seasonal variation in trade which

normally is brisk in the late summer and early autumn and slackens with the approach of winter.

During the whole of this period, lasting from June to November, critics of the policy were busy, while apologists continued to justify it by pointing to 'fatter pay-rolls', more employment and larger sales, as proof positive of its success. None of these indices, of course, are in the least conclusive. With diminished hours and higher wage-minima, unemployment figures were bound to become thinner and pay-rolls to get fatter for the time being. Dollar volumes of sales also prove nothing during a period of advancing prices, unless allowance is made for changes in price, and this can be little more than a well-informed guess. The growth of production is the safest test of progress, but the share of the N.R.A. in stimulating production cannot be isolated from the effect of other influences. If, however, a dispassionate view is formed, partly on existing criteria so far as they are applicable, and partly on the whole course of events, it is difficult to resist the conclusion that, from a material point of view, the N.I.R.A. was more of a hindrance than a help to recovery.

Before a final judgment is passed on the N.I.R.A., other aspects demand consideration. Recovery is affected by psychological as well as by material influences. Scant justice is often done to the psychological effect of the N.I.R.A. During the latter part of 1933 and the early months of 1934, it was an element in the general uncertainty as to the future, and, as such, retarded the progress of recovery. Its effect in this respect, however, was negligible compared with its psychological value in the early months of the Administration. In January, February and March of

1933, the whole American people was depressed and inert. The N.I.R.A. campaign created a spirit of activity and hopefulness. The very criticism which it evoked in some quarters was a sign of life. The despondency and the listlessness which had marked the early months of the year were in themselves a bar to recovery. By July both had vanished. The 'Blue Eagle' screamed so loud that it woke everybody up.

The N.I.R.A. was not concerned with recovery alone. It was also a measure of relief; of reform and of reconstruction. When the new Administration took office in March 1933, more than 13,500,000 men and women were unemployed. What was to be done for them? In a later chapter an account is given of relief work and of employment on public works, and the comparative merits and demerits of these forms of relief are discussed. Real work, however,—work at his own trade, for which a man puts in a good day's work for a good day's pay; for which he is chosen because of his fitness for it and is sacked if he is idle or incompetent—is infinitely better than relief, either in money or 'made work'. It is better than employment on the best of public work schemes. It was work such as this which was provided by the codes for between two and three million men. Thus, the N.I.R.A. has its place among the great relief agencies of the American Government, and the re-employment which it provided for this large body of the unemployed was of real value.

Reform and Reconstruction are near akin. Reform may be described as a change for the better within the framework of existing institutions. Reconstruction involves a change in the framework itself. The reforms introduced by the N.I.R.A. have already been described—minimum wages, maximum hours, the aboli-

tion of child labour and improved conditions of work. They also included—according to the view taken of these provisions—the recognition of collective bargaining and the relaxation of the anti-trust laws. If recovery had taken place before the N.I.R.A. was passed, minimum wages and the other social reforms would never have been instituted. They are now recognised as a safeguard for the future against the extreme of deflation which accompanied undue price-cutting and wage-reduction, and no one desires their abolition.

The value of the N.I.R.A. as a measure of reconstruction depends on the future of the codes. In the first nine months of 1934 the organisation of industry under the codes has undergone many changes. The whole structure is still plastic and its final shape cannot yet be foreseen. Any answer, therefore, to the question—"Has the N.I.R.A. been a success?" must be decided by an estimate of what has already been accomplished, with a reservation as to the development of codes in the future.

It is now possible to give a general conclusion. In any final balance-sheet of the N.I.R.A. the material effect which it has had upon recovery will probably figure rather as a liability than as an asset, although the margin either of loss or of gain in this respect is small. There is real value, however, in the psychological effect which it created; in the relief which it afforded in the form of re-employment in industry and in the reforms that have been introduced. If a dispassionate view is taken of all the facts and circumstances, the N.I.R.A., with all its shortcomings, was preferable to the pains and uncertainties of a slow unaided recovery from the depths of depression in which the country was sunk in March 1933.

CHAPTER VI

The Farmers

There is an elemental potency in agriculture which seems to compel the attention of Governments in every country, although the farming community may be small in numbers and weak in organisation. For long years Great Britain was the outstanding exception to this broad generalisation. In these latter days, however, she has gone the way of the majority of nations. She, too, is now engaged in ensuring that farmers get their fair share of the good things of the earth—or if things are not good, of what is to be had. In the United States the agricultural community has never been neglected. Its economic importance is much too great and, even if this were not the case, its capacity to make its views heard is sufficient to secure respectful consideration.

In the United States, as with every developed nation, the proportion of the population which is employed on the land has diminished. A century ago it was 75 per cent; to-day it is only 20 per cent. That by itself, however, is not a complete picture. It is not the farmers alone who constitute the real measure of the importance of agriculture in the nation. It is the whole rural community, including farmers and those whose everyday existence depends on them—the local doctors, lawyers, store-keepers, real estate agents, garage owners, transport workers on road or rail and a host of others. If all the great manufacturing indus-

tries in the United States, with their financial and other entourage, could be transplanted by a magician's wand to some new Atlantis; if they could be supplied with their foodstuffs, cotton and tobacco from the United States and could send their manufactures in return, the population left in America would still be more than one-third of what it is to-day. It is on this basis that the economic importance of agriculture in the United States must be estimated.

The farming community is fortunate in another respect. It is not only intrinsically important, but politically articulate. Farmers are not highly organised in the way in which a trade organisation of employers in an industry is organised, but they exercise a collective influence of a different kind. Education in agriculture has been carried to a high degree of perfection, particularly in post-war years. Both in secondary schools and among the adult population every effort is made to bring about a high standard of technical efficiency. Of the six and a half million farmers, it is estimated that four millions are in touch with the County Farm Bureaux. The County Agent—an official of the Department of Agriculture—advises and instructs them on agricultural policies and methods from both the technical and the economic point of view. He also collects information from them by means of questionnaires. His advice may sometimes be disregarded and some of the information supplied to him may be inaccurate. But this body of 2200 agents, stationed throughout the country, is a wonderful sound-box for 'collecting the voices' of the farmers and for making known their condition and their opinions to the Department of Agriculture and the Administration in Washington. The political influence of the farmers has always been

considerable. In the 73rd Congress the Democratic majority was large and was recruited from many areas which are normally Republican. It was not a situation in which any one section was likely to be able to hold the balance. The kernel of the Democratic majority of both houses of Congress, however, consisted of the farmers of the South and South-West, and also the great Middle West which prior to 1932 had habitually voted Republican. Furthermore, specific promises had been made to them to deal quickly with the problem of mortgages and with that of raising prices—and these were not likely to be forgotten. It was not surprising, therefore, that when the banking crisis was past and the Administration was free to deal with other matters, the Agricultural Adjustment Act was the first measure of first-class importance to find its way on to the Statute Book.

During the decade after the World War the course of agriculture was not so arresting as that of industry. In industry a period of great prosperity ended in the great blaze of speculation in 1929. The golden age of agriculture was during the war period and ended with the Peace Treaty. During those years, farmers had made colossal profits, with which the prosperity of pre-war days paled by contrast, and which set a standard of comparison for the years to follow. A natural but sharp reaction in prices came in 1920, but it did not last. By 1923 agriculture had substantially recovered. Prices of individual products fluctuated during the following years, especially in the case of cotton, plagued as it was by the boll weevil in addition to the usual vicissitudes of weather. On the whole, however, the seven years from 1923 to 1929 were a period of good returns. Prices were not nearly so high,

of course, as those of 1918 and 1919, but the cost of production was reduced and the margin of profit increased by the introduction of new machinery and other improvements in production. It was not, however, a period of contentment. Farmers are farmers all the world over, with a prescriptive right to grumble, whether it be justified or not. Farmers in America were no exception. During each of the years from 1923 to 1929 their gross income exceeded $11 billion. Those years are recognised now for what they were —years of prosperity. At the time, however, farmers contrasted their lot with the rapid and continued advance year after year in the towns and the big industries. The national income increased from under $60 billion in 1922 to $83 billion in 1929: The lot of the farmers seemed mean and poverty-stricken compared with this affluence or with the golden days of the war.

When the crash came in 1929 the stability of the agricultural position had already been undermined. Since the war, world production of some of the most important crops had greatly increased. Only the full consuming power of a prosperous world could prevent a serious set-back. As it was, the pressure of international debts was already forcing some countries to expand production still further in order to curtail the need for imports. On this weak position the impact of the world depression fell with disastrous results, and in America it bore most hardly on those products, like wheat and cotton, in which the export trade was important.

During the war the cessation of the export of wheat from Russia and decreased production in other European countries stimulated the demand from other

sources, and the acreage under wheat in the United States, Canada, Argentina and Australia was enormously enlarged. With the resumption of wheat-growing in Europe, the world production increased. During the same period, however, trade in Europe recovered rapidly. Tariffs on wheat in importing countries were still moderate. Consumption, therefore, expanded, and wheat prices in the United States were maintained at $1.10 a bushel or more until 1927. In 1927 and 1928 two bumper world crops succeeded one another, leaving a greatly swollen surplus or 'carry-over' in 1929. With an expanding acreage under wheat in Europe and oversea countries, world production continued to exceed consumption. The position was rendered acute by the onset of the world depression. The huge surplus could not be carried, and the price of wheat, which stood at $1.07 in January 1930, fell to 61 cents by December of that year. During the ensuing years two factors further aggravated the situation. For the first time since the war, Russia re-entered the international market on a large scale, with exports of 93 million bushels in 1931 and 92 million bushels in 1932. Import tariffs in Europe were pushed to extravagant heights, and while production in Europe increased by 150 million bushels, consumption fell by 175 million. As a result, the price of wheat in the United States fell still further—to 44 cents at the end of 1931 and to 31.6 cents in December 1932, or considerably less than one-third of what it had been three years previously.

The cotton-growing industry in the United States follows a course of its own. It is pre-eminently the great export crop. Before the war nearly 60 per cent of the total crop was exported. Since the war the pro-

portion has not been so great, but the average is about 55 per cent. The price of cotton in America is determined, therefore, by the world price. Since, however, more than half the cotton sold in the international market comes from the United States, American production influences that price considerably. During the fifteen years before the war the New York price had varied from 8 to 14 cents per lb. In the war it rose steeply and, in 1919, it reached 38 cents. After the war it fell like that of other commodities, but the short crops in 1921, 1922 and 1923 caused a rise again to 31 cents in 1923. During the succeeding years prices varied but averaged 17½ cents for the crop years 1925–1926 to 1928–1929. Meanwhile production had increased largely, both in the United States and in other cotton-growing countries. Demand was sustained until 1928, when Germany began to reduce her imports. With the development of the depression, however, consumption greatly diminished. In the United States, for example, it decreased by nearly one-third. Prices, which stood at 16 cents per lb. in December 1929, began to fall rapidly in the second half of 1930. In December of that year the price was 8.7 cents per lb. In December 1931 it was 5.5 cents and by December of 1932 it was 5.4 cents, after having dropped to 4½ cents in June—barely one-quarter of the average for 1925–1929.

The acreage under tobacco, the other predominantly export crop, increased more or less continuously up to 1931. So also did the exports which, until that year, averaged more than one-third of the total crop. Prices rose very rapidly during the war, with those of other agricultural products and, after a set-back in 1920, continued on a fairly high level until December

1929. They then slumped severely during 1930 and 1931, but rose again in 1932 when the tobacco crop was very short. The total fall in the price of tobacco has not been so great as in the case of other products.

Corn and hogs—*anglicé* maize and pigs—are almost universally considered together. Only a tiny fraction of the huge harvest of corn is exported. By far the greater part of the crop walks to market on the legs of the hog. The family habits and reproductiveness of the pig are the same the world over; so also is the tendency of farmers to over-expand when prices are high. In nearly every country, therefore, prices of pork and bacon vary upwards and downwards in a similar pattern—a short cycle of four or five years. This is true of prices for hogs in the United States. Since the war, however, while the same cyclical movement is observable, the general tendency of price is downwards. This is due partly to the depression, partly to increased production in Europe, which reduced the export market for the American product. Prices for hogs held up longer than those for other commodities. The average price received by producers was \$8.53 per hundred pounds in December 1929, and \$7.44 in December 1930. It fell to \$3.76 and \$2.73 successively in 1931 and 1932. Corn or 'maize' which fetched 78 cents a bushel at the end of 1929 fell in the same period to 70, 34½ and finally to 18.8 cents.

Farmers in the United States have been blamed for not curtailing production and thus mitigating the fall in prices. This criticism is less than fair. The fall in prices was due to a combination of causes, which were international in character, and a reduction of exports from the United States would not by itself have met the situation. Moreover, a voluntary curtailment of

production postulates a degree of combination among farmers which could not have been reasonably expected of them. Experience the world over has shown that while it may not be difficult for manufacturers to combine to curtail output, it is different with farmers. Their first instinct is to increase output in order to recoup themselves for the lower profit on each bushel or bale. In this way they aggravate the evil which they wish to mitigate.

Fortunately the four great staple crops—wheat, corn and hogs, cotton and tobacco—do not constitute the whole of agricultural production. Milk and eggs form a part, the importance of which is seldom recognised. In 1929 the production of milk was worth twice as much as the cotton crop, big as that was, and three times as much as the wheat crop. Moreover, milk and eggs, although the price fell by one-half during the slump, fared better than those crops which were affected by international markets. As a result the value of milk and its products in the United States in 1932 was more than equal to the value of the corn, wheat, cotton and tobacco crops combined. That of eggs was not nearly so large, but it was greater than that of wheat and nearly equal to that of the cotton crop.

What a condition is revealed when a fall of 50 per cent in the value of products confined to the domestic market can be regarded as a favourable feature! The fall in agricultural prices as a whole was much more severe than in industrial—badly as industry had fared. *Vis-à-vis* the town population, the condition of the farmers had deteriorated greatly. Their relative position is usually expressed by what is known as the 'farmers' ratio'. It is the proportion which the prices obtained by the farmer bear to the prices of the neces-

sary commodities which he purchases. Assuming that proportion or 'ratio' to be 100 in 1909–1914, it stood at 95 in August 1929, but had fallen to 52 three years later.

This fall in prices was unprecedented, but it was only part of the plight of the farmer. He was in fact between the upper and the nether millstone. Not only had his income decreased disastrously, but his average mortgage debt had increased in recent years. The total of $3,300,000 in 1910 had increased to $9,500,000 in 1928—and in the latter year 42 per cent of all the farms were mortgaged. When the average price of all farm commodities in August 1932 was barely 40 per cent of what it had been three years previously, it needs little imagination to realise how crushing a burden the interest on these mortgages had become. Gross farm income had fallen from nearly $12 billion to just over $5 billion, and little was left to pay taxes and mortgage interest after unavoidable expenses had been met. Inability to pay these charges led to a number of foreclosures by creditors in the case of mortgages, and to the reversion of land to the State in cases of non-payment of taxes. During the earlier years of the depression, evictions were resisted by force in a number of States. The decrease in the number of evictions in later years, however, was due to a still more potent cause—the discovery that to put in a manager or caretaker involved greater expense than to leave the mortgagor in possession. It is true that the farmer, as compared with the unemployed workman in the towns, had food, fuel and shelter. The possession of that shelter, however, might only be due to the unwillingness of the mortgagee to evict, because evictions no longer paid. Agriculture was in the worst plight within living memory.

The array of difficulties with which the Government was confronted was indeed formidable. The exports of wheat, cotton, hogs and tobacco had been severely restricted. Prices had been reduced by nearly 60 per cent—a fall much more severe than that of the principal commodities bought by farmers (which had dropped 30 per cent), or of wholesale prices generally. The carry-over of each of the principal crops was greatly swollen and, unless it was reduced, it was bound to overhang the market and to prejudice a recovery in prices. Lastly, the pressure of mortgage debt was crippling. Unless the slow process of foreclosure or of composition with creditors was to work itself out, it was essential for prices to be raised or for the rate of mortgage interest to be reduced—or both. The problem, moreover, was two-fold. It concerned the future as well as the present. It was unlikely that the exports of wheat and of hogs from the United States would ever reach former levels. The choice, therefore, lay between leaving the inevitable decrease in production to be brought about by slow attrition and endeavouring to help the process of readjustment through the agency of the Government. The development of this policy, however, was bound to take time, and immediate measures were urgently needed to deal with the existing situation. A rise in prices was essential, but that alone would not satisfy the farmers. It was necessary to restore the pre-war 'ratio' between farm prices and the prices of commodities bought by farmers. To effect this object a restriction scheme of some kind was inevitable. The old adage:

> that whoever could make two ears of corn or two blades of grass, to grow upon a spot of ground where only one

> grew before, would deserve better of mankind . . . than the whole race of politicians . . .

was reversed. The newest method of benefiting mankind was to make one blade of wheat grow where two had grown previously. It was also obvious that any project would be ineffective which rested on a mere undertaking by farmers to carry out its provisions. The temptation to some of them to 'double-cross' their fellows might be greater than they could resist. If the scheme were to be a success the choice lay between two alternatives. Either it must be compulsory or, if voluntary, it must contain so powerful an inducement to participate that it would not pay farmers to remain outside it.

The Agricultural Adjustment Act was designed with these requirements in view. A statement made by the President some weeks before the Bill was introduced gives a clear indication of the main features of the forthcoming measure. After stating his intention to extend the use of Federal resources in alleviating the burden of mortgages, he continued:

> The purpose is clear. The requirement is obvious; it is to give that portion of the crop consumed in the United States a benefit equivalent to a tariff sufficient to give the farmers an adequate price. . . .
>
> The plan must provide for the producer of staple surplus commodities, such as wheat, cotton, corn (in the form of hogs), and tobacco, a tariff benefit over world prices which is equivalent to the benefit given by the tariff to industrial products, and that differential benefit must be applied, so that the increase in the farm income purchasing and debt-paying power will not stimulate further production, additional production.
>
> The plan must finance itself.

The method adopted is that of the voluntary domestic

allotment plan which was first devised in 1927. It consists of a clever combination of processing taxes and restriction of production. Processing taxes are imposts levied on the 'basic' agricultural commodities to which the Act applies at the point at which they go through the first process after the farmer has disposed of them. By means of processing taxes, it is hoped to raise the money required to provide benefit payments to those farmers who curtail their production in accordance with the Government plan. The amount of the payment in each case is based on a scale which varies with the acreage and the yield of the ground withdrawn from cultivation. While the general principle of the scheme remains the same for all the crops to which it is applied, no uniform method of application is prescribed by the Act. The Secretary of Agriculture is given authority in the case of any basic commodity to devise and apply whatever scheme may be most suited to the circumstances of the case. The original list of basic commodities included wheat, cotton, corn, hogs, rice, tobacco, and milk and its products. Several other commodities have since been added, of which meat is the most important.

The proposals are ingenious and they combine several advantages. In so far as the farmers' total receipts are increased by enhanced prices and benefit payments, he is to that extent better off than he was before. Moreover, if the taxes out of which these payments are made are borne by the rest of the community, his 'ratio' is proportionately improved and a step has been taken towards achieving another of the main purposes of the Act. The suggestion that the farmers' receipts will be increased, or that his 'ratio' will be improved, involves of course the assumption that the

middleman who buys his produce does not, as a consequence of the tax, reduce the price to the farmer. In the case of an export crop such as cotton or wheat, the farmer need have little apprehension on this score, since the international price governs the market. Sooner than sell it for domestic purposes below that price, he is free to export it. With a product which is limited to domestic consumption the case is very different. If there is any surplus production, the burden of the tax can be thrown back upon the producer so long as the surplus lasts. The only way to meet this is by the restriction of production. The market advantage is then with the seller. Restriction is made possible by the allotment of benefits. It is voluntary, except in the case of growers of cotton and tobacco, to whom compulsion—or penal taxation which practically amounts to compulsion—has been applied under later Acts. Benefits, however, are only allotted to those farmers who join in the restriction scheme, while the tax is levied on the whole of the product which goes into consumption. Farmers know, therefore, that if they elect to stay outside the scheme, their crop will not escape taxation, while the benefit will go to others. Furthermore, the rate both of tax and of benefit is deliberately planned so that they shall lose by standing aloof. They have, therefore, a strong inducement to join in the scheme, in addition to the knowledge that by so doing they can not only maintain the price of their product but enhance it.

Control of production can also be applied to effect the reduction of a large 'surplus' or carry-over. If the planting for the year is restricted, and the crop in consequence is short, the last year's carry-over can be reduced. On the other hand, what would have been a

bumper crop if weather conditions had been favourable, is reduced by restriction to one of normal size, and a further increase in the swollen carry-over is averted.

Cotton was the first crop to which the new restriction scheme was applied. Its object was to reduce the acreage by at least 25 per cent and the estimated crop by three million bales. Cotton farmers were accordingly invited to enter into contracts with the Government to reduce their acreage under cotton by not less than a quarter and not more than a half. They were to be compensated by a payment on a rental basis, which varied according to the previous yields of the ground restricted, but averaged about $11 per acre. As an alternative they were offered a lower rental with an option to buy at six cents per lb. a proportionate amount of the large surplus stocks of cotton owned by the Government. To obtain the revenue necessary to provide these benefits, a 'processing' tax of 4·2 cents per lb. was placed on all cotton going into domestic consumption. The response from the farmers was very satisfactory. Over a million joined in the scheme and approximately 10,400,000 acres were taken out of cultivation. The scheme was only put into effect in July, 1933, when the acres which it was agreed should be withdrawn from cultivation were green with crops in active growth. To plough in these crops seemed both repellent and ridiculous. But it was done, and it was justified by events. The year 1933 was a bumper year, and the yield, but for the restriction, would have been 17,600,000 bales—very nearly the greatest on record. Had the whole of this crop been harvested, the carry-over on August 1, 1934, would have been swollen by another 4,400,000 bales, and the price would probably have sunk to the lowest level

ever reached. As it was, the price for the 1933 cotton crop averaged about 9½ cents per lb. In addition, cotton farmers have received benefit payments amounting to $160 million. The general condition of the cotton districts, judged by mail order sales and similar criteria, is more prosperous than it has been since 1930.

For the year 1934–1935 it was proposed that the acreage should be further restricted to 25 million acres, from which, in normal times, a crop of 10 million bales might be expected.[1] The carry-over from the previous year is also about 10 million bales, and the total supply of American cotton available will therefore be 20 million bales. World consumption is expected to amount to 14 million bales. If, therefore, these estimates are realised, the carry-over for the next year will be six million bales. In other words, cotton stocks will be reduced to normal, which is the object of the restriction programme.

It was intended that the scheme should continue to be voluntary. The Bankhead Cotton Act, however, introduced a compulsory system of allotment. Under this Act, the acreage to be planted is first divided among the different cotton-growing States. The authorised acreage in each State is then sub-divided and quotas are allotted to individual farmers. The Bankhead Bill, at the outset, was not approved by the Government. It was ascertained, however, that a large majority of cotton farmers were in favour of the principles which it contained and it was, therefore, passed into law after a number of amendments to it had been made. As a system of quasi-compulsory limitation, it is an interesting development, and is well worth watching.

[1] The actual yield of the 1934 American cotton crop has been put (August) at 9,150,000 bales.

The other original or 'basic' agricultural products to which the Agricultural Adjustment Act applies are wheat, corn, hogs, tobacco, rice and milk,[1] but it was not possible to put a restriction scheme in force for any of these until the present year. With the exception of milk and rice, the cardinal principle of the scheme is the same for all products—the combination of a processing tax on the product, with benefit payments to the farmers who participate in the scheme. The application of the principle, however, and the actual mechanism differs for each product. Tobacco, like wheat, is an export crop. The difference between the various types of tobacco, however, made it desirable to have a separate programme for each kind. 'Corn' and 'hogs' presented a peculiar complication. They are the Siamese twins of agriculture, inseparable, yet with distinct and often divergent characteristics. It was only after considerable discussion that it was decided to apply one combined scheme to corn and hogs instead of two separate sets of proposals.

The wheat restriction scheme was announced on June 20, 1933. Each producer was invited to reduce his acreage by an amount not exceeding 20 per cent, and in return he was to receive a payment of 28 cents per bushel on about five-sixths of his crop. As a result, 7,600,000 acres or 11 per cent of the total acreage was pledged to restriction. When the year ended, the actual restriction of the acreage usually planted with winter wheat was found to be 7·2 per cent. In order, however, to satisfy the terms of the International Wheat Agreement, it is necessary that the acreage of wheat in the United States should be reduced to 15 per cent below the average acreage for 1931–1933. The question then

[1] Cattle and some minor products have since been added to the list.

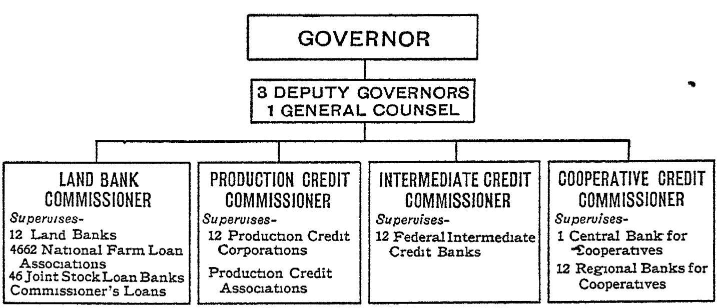
arose whether additional steps for restriction would have to be taken. *L'homme propose, et Dieu dispose.* There came the intense and appalling drought in the North-Western States. This wrought such havoc with the wheat crop that it resulted in a reduction of more than 200 million bushels. This far transcends all restrictions required by the Wheat Conference. It is not proposed to discuss here the general social and economic results of the drought except to emphasize the fact that the reduction in purchasing power caused by the calamity has undoubtedly impeded recovery. Its effect upon the wheat situation has been decisive. It will effectively reduce the excessive carry-over of 329 million bushels a year ago below the normal figure of about 124 million bushels.

The burden of mortgage interest on farmers in the United States has already been mentioned. It is the second of the two plagues with which agriculture in that country is afflicted. It is not a new visitation. As long ago as 1916, the Federal Reserve Act was passed to deal with long term mortgages. This Act created twelve Federal Farm Land Banks, situated in different districts, and they form the nucleus of the present Farm Credit Administration. In 1923 the system was extended by the Agricultural Credit Act, which instituted twelve Intermediate Credit Banks. In the following ten years the problem became increasingly acute, through the growth in the volume of mortgage debt in the first part of that period and the fall in prices since 1929. In his efforts to help the situation, President Hoover made great additions to the existing credit agencies and increased funds were provided by the newly created Reconstruction Finance Corporation.

The inauguration of the present Administration was the starting-point for further extensions on a great scale. They were made by the Emergency Farm Mortgage Act (as the second part of the Agricultural Adjustment Act was called) and by the Farm Credit Act of 1933. In March of the same year the system of administration was greatly improved. Previous measures dealing with the subject had resulted in a somewhat inchoate collection of agencies providing credit. These were all brought together by an Executive Order of the President and consolidated under the title of the Farm Credit Administration, which now has under its supervision all the public and semi-public agencies supplying credit to agriculture.

The Farm Credit Administration is presided over by a 'Governor' and is formed into four separate sections—the land bank, production credit, intermediate credit and co-operative credit divisions, each under a Commissioner, as is shown in the accompanying chart.

FARM CREDIT ADMINISTRATION
WASHINGTON OFFICE



The country is divided into twelve regions, each with its land bank, production credit corporation, intermediate credit bank and bank for co-operatives,

supervised by the corresponding commissioner at headquarters. Each local land bank works through numerous national farm loan associations which are scattered throughout the region. The capital of each of these associations is subscribed partly by the parent land bank and partly by the farmers themselves. Loans at favourable rates are made by them to individual farmers for buying land, improving buildings, liquidating mortgages and similar purposes. The organisation of the production credit system which makes shorter loans for crop production purposes is almost identical with that of the land banks. That of the co-operative credit system is very similar. The intermediate credit bank does not make loans directly to farmers, but extends credit to the institutions which make such loans, such as the production credit corporation, or banks, or live-stock loan companies.

The financial resources at the disposal of the Farm Credit Administration have been greatly increased. The Federal Land Banks have been empowered to issue farm loan bonds to an amount of $2 billion for making or re-financing mortgages. In addition, appropriations have been made by the Treasury and sums have been provided by the Reconstruction Finance Corporation for a variety of purposes. With the aid of these resources, the aggregate amount of advances to farmers has grown rapidly, and on April 30, 1934, it reached the total of $2582 million. Striking as is this figure, it is not more striking than the scope of the assistance given. In the words of a recent writer: "there is scarcely a purpose connected with agriculture for which the farmer is not encouraged by Uncle Sam to apply to him for a loan".

It is sometimes said by experts at the game that

"Bridge begins where Culbertson leaves off". The permanent problem of American agriculture begins at the point at which recovery expedients come to an end. With recovery, domestic consumption will expand and exports should increase once more—subject to a more liberal tariff regime in the United States. Even so, American agriculture at its present capacity will be able to produce more than can be absorbed by both domestic and foreign markets. The problem of the surplus and how to deal with it will remain. Provisions for restriction which may succeed admirably as temporary expedients cannot provide a permanent solution. The mere thought of myriads of farms, each with isolated patches of land withdrawn from the natural crop, and of numberless owners receiving benefit payments *in aeternum* is enough to show the absurdity of the suggestion. The choice, therefore, lies between leaving events to take their own course unguided and uncontrolled and making a deliberate effort to withdraw from cultivation the amount of land necessary to restore the balance between production and consumption. Calculations have been made of the average acreage involved, and the best estimate—where so many elements of uncertainty exist—places it at 35 million acres of land of average quality.

It is to this task—the withdrawal from cultivation of 35 million acres of land—that the Administration has set its hand. It is a formidable undertaking. In the first place, it involves the purchase of large areas of poor or 'sub-marginal' land. All the land acquired, however, cannot be sub-marginal. In deciding upon the areas which are to be withdrawn from cultivation some regard must be paid to regional considerations.

It would not be a practical policy to concentrate the bulk of the withdrawals on one or two areas, or leave some states more or less derelict. Secondly, it is not one problem but six problems, owing to the different crops involved. The cultivation of some crops, such as cotton, wheat and tobacco, is highly concentrated, as is evidenced by the very phrases 'the cotton belt' and 'the wheat belt'. Corn and hog production is dispersed over a wide area, and the milk industry is scattered throughout the whole country. The problem can also be attacked simultaneously in another way—by laying down in grass land which is at present under corn, *i.e.* by a change from intensive to extensive farming. This course also has its difficulties, one of which is the altered size of the farms that would be required in any change-over from an intensive to an extensive system. The immensity and the difficulty of the task are obvious, whatever the plan or plans adopted. But the only alternative is to allow the reduction in cultivated land to be brought about by the uncontrolled operation of natural economic forces, which is another way of expressing the gradual squeezing out by failure or by migration, with all the hardships involved, of thousands of farmers who will leave their farms behind them derelict.

This programme for the future, together with the emergency measures of restriction and the provision of credit for agriculture through the agency of the Farm Credit Administration, form the three main points of the agricultural policy of the Government. The programme for the future excites apprehension by its very size and complexity, but in fact it is the part of the Government policy about which there is least need for anxiety. Unlike the emergency programmes for the re-

striction of crops, its method of operation is essentially piecemeal. The cotton scheme of 1933 could not have succeeded unless a large proportion of all cotton farmers had been willing to participate. Under the permanent programme, however, a large area can be purchased here or a small area there, as opportunity offers, and all that is done can be made to fit into the general scheme. Such purchases are in fact under contemplation at the present time out of funds provided by the Public Works Administration. It is also clear that the Government programme for the future does not attempt to run counter to natural economic forces, but rather endeavours to co-operate with them and to accelerate their action—a co-operation which is quite compatible with a mitigation of the hardships which those forces might otherwise inflict. Each step taken in execution of the programme is a step in the right direction. If the policy, for financial or other reasons, is not carried out in its entirety, the work done will not be wasted. Much less will it be mere wreckage to be cleared away before some other programme can be attempted. Whatever is accomplished will be so much to the good. Lastly, the scheme possesses an elasticity which is essential. However careful the estimates for the future demand for products, they may be falsified by changes in tariffs abroad, or in habits of diet at home, or by other new and unforeseeable events. If such changes occur, the policy can be adjusted to meet the new requirements.

The Farm Credit Administration is a development of quite a different kind. It is admirable as a recovery measure in both its specific and its general results. It benefits the farmers. It helps to thaw the frozen streams of credit and of trade. Its future possibilities, however,

also deserve consideration. As has been pointed out, the kernel from which the present Administration has grown was the system of Federal Farm Land Banks which was created in 1916. They were established with the aid of Government capital. It was contemplated that the banks should ultimately be owned by the borrowing farmers—and by the end of 1931 the Government capital in ten out of the twelve banks had been repaid. To-day, besides the investment of capital, the Government has guaranteed more than $2500 million of farm credit bonds. Is it going to disengage itself and enable the group of Land Banks and other credit agencies to be acquired by the borrowing farmers, and thus to become private corporations? Or are these agencies to continue to form part of a State institution, purveying mortgage credit, intermediate credit, production credit and crop loans to every farmer in the United States? That would be a very considerable inroad into the domain of private enterprise. Other possibilities must also be contemplated. What are going to be the demands made by farmers and voiced by Congress? What opportunities, on the other hand, are placed in the hands of an adroit and determined administrator? He will have the power to affect the well-being of farmers in a matter in which they will be most sensitive to influence.

The restriction schemes raise considerations of yet another kind. Their object is to control the volume of production. There are two kinds of control, different in their methods and in their effect upon individuals. The Government scheme is of one kind; the Bankhead Cotton Act is of the other. By the former method, control is effected by creating artificially a level of prices which in a normal year would lead to the

production of a crop of the desired size. This is what is done under the system of benefit payments and processing taxes, and it is consistent with a maximum of individual freedom and initiative. Under schemes of this kind an individual is free to take up whatever class of farming he prefers. The other method of restricting production effects its object by licences or quotas. By its nature a quota system is bound to put an end either to free entry into the occupation controlled or to free production by individuals within it, or both. It may be necessary in an emergency, as a strictly temporary expedient, but it is indefensible as part of a permanent system. It is a bar to progress, for it not only limits actual production but impairs productivity. In a communist state limitations such as are imposed by quotas are not prejudicial in so far as the profit motive has ceased to exist. The encouragement of productivity—directed or controlled as it may be—is essential in an individualist system based on private enterprise. It is impossible as yet to foresee how the control of agricultural products in the United States will develop.

In the restriction scheme for cotton some difficulties are already becoming apparent. The normal consumption of American cotton is 12 to 13 million bales. According to the opinion of those who are best qualified to judge, a price of 10 cents per lb. is sufficient to induce the production of a crop of this average size. What is likely to happen if the price is pushed up much above this figure? If the control is only a temporary expedient, farmers will rush to plant the areas now restricted as soon as the control comes to an end; a new period of over-production will ensue, and another slump in cotton. Suppose that the control is

made permanent. What then? America has to meet the competition, small at present but with great potentialities both in quantity and quality, of Brazilian cotton. A high price for American cotton, maintained for a number of years, may stimulate a formidable competitor.

Policies of restriction, devised to meet a glut or overproduction, are sometimes condemned on principle. To those who take this view it seems wrong for the growth of wheat to be restricted or for huge quantities of coffee to be destroyed, when vast numbers of human beings are in need of them. But restriction may be regarded very differently by the farmer in Lincolnshire or the Lothians, whose potatoes lie rotting in the ground because the market for them is glutted, or by the cotton grower in Alabama, whose crop is unsaleable for the same reason. The real fault—since fault there is—lies in the recurrent dislocations of the capitalist system which prevent demand and supply from meeting and becoming effective at a reasonably stable price level. The temptation to try to force prices up to too high a level is inherent in any scheme of restriction, and the danger of giving way to it is only too real. The history of the years since the war is littered with the wrecks of restriction schemes, and the lure of a high price has been one of the chief causes of the wreckage. It will be most interesting to see whether moderation can be observed in the United States despite the pressure that will be exerted. In the restriction of export crops, at any rate, moderation is a pre-requisite of any likelihood of success.

CHAPTER VII

The Unemployed

The depression in the United States has resulted in one change which is undoubtedly permanent. The attitude of the nation towards unemployment is entirely changed. Prior to 1929 relief of the unemployed was regarded as a matter for charity. To-day it is recognised to be rightly and properly a Federal, as well as a local, charge. Other developments may endure, or they may melt away and disappear in the warmth of returning prosperity. But the change of mind towards relief has come to stay, and it is likely to manifest itself in concrete form if the legislation lately fore-shadowed by the President materialises. The history of the depression in itself affords sufficient reason for the change. Neither charitable efforts, however highly organized, nor the resources of local authorities and State administrations, could avail to stand so great a strain. When the efforts of both failed and Federal help still lingered, the unemployed had to bear the brunt.

It is difficult to appreciate properly the suffering caused by the enormous volume of unemployment which followed the financial crash in 1929. The figure of 13 million unemployed men and women—staggering as it is—does not adequately portray the plight of many of them. In a community which had been wealthy and secure and which had suffered few of the apprehensions of less prosperous nations, it was perhaps

natural that provision—public or private—to meet such an emergency should be inadequate. Such relief funds as were available in the different States had an intolerable burden thrown upon them and were soon exhausted. Private savings had in many cases been swallowed up in the crash. Many families of unemployed people had to fend for themselves, and they did so as far and for as long as they were able. Shelter in many cases was only available as long as landlords remained lenient. When affairs were at their worst, food was the one over-mastering need. To obtain it, men loitered round docks and snatched at anything which was cast out. Children ran errands or did anything they could in exchange for something to eat; pleading hunger, they sometimes induced local grocers to give them a little food. The numerous ways in which a family, concentrating its entire attention on food, managed to obtain it, evidenced an ingenuity and perseverance which testified to their need. Food when obtained, however, was appallingly inadequate in quantity and in quality, and the condition of children and sick people was pitiable. In Great Britain, with its ordered schemes of social insurance and other forms of relief, such a situation can hardly be realized. But it did undoubtedly exist in a considerable number of places in the United States. It was truly said by a social worker in Philadelphia that "people do not starve to death when relief stops; they just starve, with the margin by which life persists maintained by the pity of their neighbours and by a sort of scavenging on the community".

Another fact stands out clearly from the history of the depression. The unemployment which it brought in its train was obviously not due to any local cause but had its origin in movements and influences not merely

nation-wide but international. It was only right, therefore, that it should be regarded as a Federal problem. With a change of mind towards unemployment has come a change of heart towards the unemployed. The weakest human vessels still go soonest to the scrap-heap; but that is no longer felt to be a full and sufficient statement of the whole matter. In so deep an industrial decline as the last, the great majority of the unemployed were men and women of good average capacity. Many of them were above the average, but where some particular industry was hard hit, all alike, good, bad and indifferent, were liable to be put on the street. Ingrained tradition may have delayed the change in national opinion, but when it came it was complete. The President's promise, "No one is going to starve in this country", left no room for doubt—nor did his performance.

For more than three years unemployment had been growing. No accurate statistics exist either of unemployment or, in the earlier years, of relief, but according to the most reliable estimates the number of unemployed reached 3,200,000 in January 1930; 7,200,000 in 1931; 10,200,000 in January 1932; and 12,100,000 at the end of that year. In March 1933 it amounted to 13,533,000 out of a total occupied population of about 49,500,000. In other words, of the whole occupied population (with the exclusion of agriculture) more than one-third were unemployed.[1] Provision of relief lagged hopelessly behind. In 1929 it had amounted to $85 million, of which one-third was provided by charity and two-thirds from public sources. In 1931 charity began to fail, and relief was given on an

[1] The figure of 49,500,000 includes rather more than ten million farmers.

increasing scale by State Governments. In 1932 State relief in its turn became inadequate, and in July of that year Federal aid was given for the first time. The sum of $300 million was provided for loans to States for purposes of relief. Of this sum $169 million had been spent by the beginning of March 1933. At that date unemployment had reached a figure hitherto unknown. Assistance of some kind had to be given to nearly one-quarter of the whole population of the country. This was the problem which faced the new President.

Provision for the unemployed has now been made by several methods; reabsorption of men into industrial employment; relief in the usual sense of the word; and employment upon public works. The reabsorption of men into industry was effected principally through the instrumentality of the National Industrial Recovery Act, and the codes established under it. The nature of this Act and of the form of organisation created under it has already been fully explained in Chapter IV. The number of men whose re-employment is attributed to the N.I.R.A. is sometimes placed as high as 3,000,000, but was probably about 2,200,000, representing, if dependents are included, about 4,500,000 persons.

Relief was governed by the Federal Emergency Relief Act, which was passed on May 12, 1933. In that Act the Government took a decisive step forward. Hitherto, help to localities for relief of the unemployed had taken the form of loans made by the newly created Reconstruction Finance Corporation. A central department was now created, the Federal Emergency Relief Administration, under a Relief Administrator. The actual distribution of relief was left in the hands of local officials. Supervision, however, was exercised by the Central Government through

local field officers appointed by the Relief Administration. These measures were supplemented by the National Employment Service Act which was passed on June 6, 1933. By that Act, the employment department of the Department of Labour was expanded into a Federal Employment Service. As in the case of the Relief Act, the local administration was continued in the hands of State authorities. They were encouraged to set up employment bureaux by grants from the Federal Government, and the renewal of these grants served as an instrument for keeping the local administrations up to the required standard. The passing of these Acts, together with the creation of the P.W.A. and the C.W.A., illustrate the complete change in the attitude of the Central Government towards unemployment. The manner of the change was piecemeal, but the result is unmistakeable. The Federal Government has assumed a responsibility which it can never again evade or deny.

When the Relief Act was passed, the funds provided by the measure of the previous year were nearly exhausted. A new fund of $500 million was granted for relief purposes, half of which was to be allocated in grants to States on a contributory basis, while half could be given at discretion according to need. At the same time, the State Governments were apprised that they and the smaller local authorities must do their share. Through insistence upon this principle the amount provided by local authorities was maintained and State contributions were substantially increased. The proportion of Federal grants to funds provided locally varied very largely, ranging from 11 per cent in Connecticut and 15 per cent in Maine and Wyoming to nearly 100 per cent in Arkansas, Louisiana and

South Carolina. This disparity was due to a number of causes. The economic capacity of some States is much greater than others, the *per capita* wealth of the richest State being nearly five times that of the poorest. Again, in some States the relief burden was much heavier than in others, either through the plight of industry or because of the larger proportion of negroes in the population. It varied, for example, from 29 per cent of the total families in the State of West Virginia and 23 per cent in South Carolina to three per cent in Vermont and two per cent in Wyoming. Scales of relief also varied greatly. They were lowest in States where there was a large negro population, averaging from $6 to $8 a month in Tennessee, South Carolina and Arkansas, but reaching as much as $29 a month in the State of New York and $32 in Massachusetts.

The extent of relief increased considerably during the early months of 1933. In January the number of families on the roll exceeded 3,750,000. It rose to a peak of 4,560,000 in March. During the summer, the number fell as reabsorption into industry began to take effect. The short-lived boom in July 1933 was followed by a set-back, and the numbers on relief rose again. They fell once more to a little over 2,600,000 in December, as a result of the activities of the new Civil Works Administration. The average number of families on relief during the year was approximately 3,650,000, representing about 15,000,000 persons. The total expenditure throughout the year amounted to $790 million, of which three-fifths were borne by the Federal Government and two-fifths by State and local authorities.

An interesting incident in the administration of relief occurred in the autumn of 1933. Over a million

hogs had been bought by the Agricultural Department and had been slaughtered under its restriction programme. As a result, the Government owned huge quantities of pork, of which 100,000,000 lbs. was taken over at an agreed price by the Relief Administration and distributed as relief. The distribution of pork was followed by similar schemes dealing with flour, cheese, butter, beans and canned beef. It was an admirable arrangement. Indeed, it was a commonsense method of combating starvation in the very midst—not only of plenty—but of superabundance.

The institution of Public Works was the third direct method of meeting unemployment. Work was provided by Emergency Conservation work under the Unemployment Relief Act; by the Public Works Administration or P.W.A.; and by the Civil Works Administration or C.W.A. An extensive housing programme has also been planned by the Government recently. Emergency Conservation work was the earliest but the least considerable of the different measures. The Unemployment Relief Act was passed in April 1933, and established a Civilian Conservation Corps, which has been already mentioned. This was an admirable but very expensive scheme for giving employment to young men. It provided a six-months' training for about 260,000 young men, at an average cost of $93 a month.

No regular Public Works Administration existed before 1933. In 1932 Congress, under pressure, had passed the Emergency Relief and Construction Act, which, *inter alia*, authorised loans up to $1500 million for 'self-liquidating' projects. Less than two per cent of this sum, however, had actually been spent by March 1933. In June 1933, however, under the second

part—or Title II—of the N.I.R.A., the President was authorised to establish a Public Works Administration under the control of an administrator. A speedy increase of employment was explicitly mentioned as the object of the Act. A sum of $3300 million was appropriated for the purposes of the Act, and it could either be spent by the Federal Government itself or lent to local authorities for carrying out approved projects within a wide range of choice. The construction of new cruisers for the navy was deemed to be a public work for the purposes of the Act. A grant of 30 per cent could be made towards the cost of an approved scheme, and the condition that loans should be 'reasonably secured' was not too severely construed. In the words of Mr. Ickes, Secretary of the Interior and also Administrator of the P.W.A., to a conference of Mayors:

> I don't mean that we shall be as finicky about the security that you may offer as would be the investment bankers with whom you are accustomed to deal.

The development of approved schemes, however, even under these conditions, was disappointingly slow. Since the boom in July, progress under the N.I.R.A. had not come up to expectations. In October production showed a decline, and with the advent of November the position looked serious. Winter was near. What steps should be taken? It was decided to speed up re-employment by spending some of the money appropriated to public works on projects which could be put in hand rapidly. Hence the establishment of the Civil Works Administration. In addition to State contributions, it received an initial dowry of $500 million from Federal Funds, of which

$400 million came from P.W.A. monies, and it was placed under the same administrator, Mr. Henry Hopkins, as the Relief Administration. The nature and scope of the scheme was laid down at the start. It was to be a recovery and not merely a relief programme. Employment under the C.W.A. was not confined solely to men out of work, and was to be determined by fitness for the work to be performed. In order to employ as many workers as possible, and yet to give a living wage, a maximum week of thirty hours was established for manual workers under the scheme. The same scale of wages was adopted as that prescribed by the Public Works Administration. Clerical and professional workers were paid the current rate of wages for the district, but with a minimum of $12 a week in the Southern States and a higher range of payments in the North. Work started on November 9, and was pushed ahead with great vigour. All men on work-relief throughout the United States were transferred to employment under the new scheme. The number employed by the C.W.A. was 954,000 in November 1933; 1,524,000 in December; 4,039,000 in January 1934, and 3,876,000 in February. This result was obtained through enlisting the co-operation of the Governments in the different States of the Union, under whose superintendence seven-eighths of the work was carried out. Some of the projects undertaken consisted of little more than the execution of repairs and upkeep which had been postponed through financial exigencies during the depression. Others were of a kind with which every local administrator in Great Britain is familiar—work on roads and highways, improvements to parks and playing-grounds, repairs to schools and other public buildings, development of

public lands, schemes of sanitation and water supply —work which was of some permanent public utility, but which would not have been undertaken by the local authority if left to its own resources. A feature of the administration consisted of schemes for 'white-collar' workers, which varied from employment which was mainly clerical to work like the geodetic survey, which gave occupation to technical and professional men.

An organisation extemporised so rapidly and on so great a scale could scarcely hope to escape criticism. The work of the C.W.A. was no exception to the general rule. Very general criticism in the United States has been occasioned by the bad feeling and unsettlement created where the scales of payment under the C.W.A. exceeded those of regular workers. In one instance it led to a public dispute between General Johnson, Administrator of the N.R.A. and Mr. Harry Hopkins, Administrator of the C.W.A. In some districts regular lumbermen get 24 cents an hour under the code approved by the N.R.A., whereas a rate of 40 cents an hour was approved for similar relief work under the C.W.A. in the same neighbourhood. The General complained of the discontent which this created among the lumbermen. Mr. Hopkins retorted that when the total weekly payment to men on relief work did not exceed $9, and in some instances $7 a week, it could not be called excessive. Difficulties of this kind are inevitable wherever relief work is given and they are by no means confined to the United States. They have not infrequently occurred in England where unemployed men were put on road work. Rates paid for this labour were in excess of current agricultural wages in the neighbourhood and farm labourers

in the district complained accordingly. In America this difficulty is accentuated by the existence of negro labour. The regular rates for negro labour are less, with certain exceptions, than those paid to white men. The United States Constitution, however, knows no difference between white or black among its citizens, and relief rates have been the same for both. This has led to heartburnings. In some cases employers complain that negroes are induced to leave employment which is paid for at rates which have previously contented them. On the other hand, negroes and those who speak for them, urge that they do in fact receive differential treatment because they are given fewer hours of relief-work than unemployed white men. Such troubles cannot be avoided in the circumstances, but they will leave a soreness and discontent behind when normal conditions return.

'Graft' was another matter for criticism. Instances, real or alleged, were not infrequent in the newspapers, and it seems clear that some cases did occur. Indeed, something of the kind was inevitable. The improvisation of schemes of employment under the C.W.A. was pushed through with great speed and, under such conditions, loop-holes are always left, by which the 'grafter' can creep in. It does not appear, however, that the total amount of leakage and dishonesty was really very great.

Whether or not this was a contributory cause, a change of policy was announced by the President on February 28, 1934. The reason given was that the C.W.A. had only been intended to tide the men over the winter. In the spring the normal increase in employment would reabsorb the majority of them. Those who were still unemployed should be dealt with by

methods suited to the nature of their case. Depressed areas or towns needed different treatment from a number of unemployed men scattered throughout a great city. The C.W.A. was, therefore, demobilised and work on the different undertakings ceased as rapidly as circumstances would allow. The numbers employed fell to 2,937,000 in March and in April to less than 100,000, who were retained to complete some minor projects. The work of providing employment or of giving relief was left to other agencies to continue.

It is a common experience that the discontinuance of a privilege or an advantage once granted creates a spirit of discontent which otherwise might never have come into being. The activities of the C.W.A. provide an illustration in point. In a considerable number of cases cessation of employment under the C.W.A. meant reversion to relief with its much lower scale of payments. Not unnaturally discontent resulted. This is believed to have been organised and fomented by communists in New York and one or two other places, and some disturbances occurred. A new Emergency work programme provided for 800,000 of those whose employment under the C.W.A. had been so terminated. A great part, however, were able to find work in the normal way. The seasonal improvement in trade which usually takes place in the spring was more marked than usual in the early months of 1934. Manufacturing production which had stood in the previous December at 73 per cent of the 1923–1925 average increased to 80 per cent in February and to 85 per cent in April. Lastly, the Public Works Administration now began to play a more prominent part. Part of the schemes under the P.W.A. were Federal; part were State or municipal; and part of its expenditure was on loans to railways.

While some of the smaller schemes could be put into operation quickly, the greater part took time to mature. Hence the slow growth of actual employment under the P.W.A. up to the end of 1933. In the New Year, however, the figures began to increase rapidly. In February 1934 the average number of persons employed was 386,000, rising in April to 680,000. It was estimated that it would reach a peak of 883,000 in July 1934 and taper off gradually to 277,000 in December. The effect of expenditure on public works as a stimulus to recovery is discussed in another chapter. From the point of view of the taxpayer it is of interest to note that the average expenditure on all forms of relief per family in the United States is about $18 per month; under the C.W.A. it reaches a figure of $52 per month for each individual employed; and each man-month of one hundred hours under the P.W.A. costs $150 on State and municipal schemes and $200 on Federal projects.

One method of relieving unemployment has been sadly neglected until recently by the American Government. Of all forms of public expenditure in a time of depression housing development is the most valuable. It creates employment; it meets what is, in many American cities, a pressing social need; it produces objects of permanent utility; it assists industry in the manner which is most needed by stimulating the demand for building materials; and it need not entail any serious burden on the taxpayer, provided that the charges for materials and for labour are not so enhanced as to make the cost prohibitive.

Housing schemes possess this further advantage. They cannot be extemporised in the same way as work on parks or pleasure-grounds or roads; but they do not

need the lengthy preparation and planning involved in the building of a great bridge. A year should be a sufficient period for getting schemes under way for building small dwellings. For all these reasons the unaccountable delay in housing development since the present Government came into office is the more regrettable.

A new attempt to deal with the question is now being made under the National Housing Act which was introduced into Congress on May 14, 1934, and which was passed on the last night of the Session. The Act is likely to prove one of the most important measures passed by the 73rd Congress. A Home Credit Insurance Corporation is created under it, with a capital of $200 million, for the purpose of insuring mortgages made on dwelling houses of a small or medium size, and on loans for alterations and improvements. To qualify for insurance under the Act, the houses must be owner-occupied and mortgages must satisfy the conditions laid down by the Act as to the rate of interest charged. The cover given is limited to 60 per cent of the value of existing buildings and 80 per cent of that of new buildings. The Act also authorises the establishment of mortgage corporations which can rediscount mortgages and thus release fresh funds for investment. Lastly, the capital of the existing Home Owners Loan Corporation is increased from two to three billion dollars. More than one useful purpose may be achieved by the Act. The existing indebtedness on house property amounts to $21 billion, and it is hoped that the burden of this may be substantially reduced. If the project is successful, private capital will be attracted in considerable volume into the field of residential house building. In that event the social utility of the Act

will be great, and the recovery value will be equally important. Employment on a large scale should be provided by the improvement schemes and, as the policy develops, by the erection of new houses. The most intractable part of the recovery problem in the United States has been the delay in the revival of the demand for durable goods, and particularly in the construction industry. The encouragement, therefore, of the investment of private capital on a large scale in building construction will, if it succeeds, be a most valuable stimulus to recovery.

At first sight, the P.W.A. and the C.W.A. may seem an uninspiring topic and the least interesting in the President's Recovery Programme. But they raise wider issues than would be gathered from public discussion of them in the United States. The projects initiated by the Government differ greatly in character. Many of the public works financed in whole or in part by the P.W.A. are of genuine public utility. At the other end of the scale are the many instances of work in local districts, which was created to serve as a vehicle for relief and which would never have been undertaken otherwise—a dole, in fact, disguised under the thinnest of camouflage. The C.W.A. was a later creation than the P.W.A., or the Relief Administration, and it occupied a position mid-way between them. It was intended to act quickly and it was, therefore, not so particular as the P.W.A. as to the full value of the work done. On the other hand, its projects were to be businesslike and carried out by businesslike methods. Work *relief* was to give place to relief *work*. In many cases, every effort was made to maintain these standards. But there were great variations, and on the whole it may be doubted whether business

conditions of work were consistently maintained in more than a fraction of the projects undertaken.

To American opinion this fact does not appear very shocking. Better work relief than that abomination—the 'dole'. The nature of the work, however, and of the conditions under which it is done make all the difference. There is nothing abstruse in the question. It is a matter of ordinary human nature. If a man likes his work, he will labour at it without any spur. But most work is not loveable, and a spur is needed—whether it is ambition, or his weekly pay-envelope, or keeping his job. The habit of slovenliness or slackness, which comes of aimless work done without strict supervision leads to demoralisation which is worse and more enduring than that produced by the payment of a 'dole'.

It is natural that public opinion in the United States should be slow to come round to this view. For many years there had been work for all. The man who needed relief was despised as a worthless work-shirker who boarded a freight train when he could no longer cadge a subsistence from people around him. Again, Americans, like the rest of the world, had read day by day in the years up to 1931 of the defects in the British unemployment insurance system.

In Great Britain the course of unemployment insurance has been illuminating. The system has been perverted and abused. In the end a clean cut has been made between unemployment insurance, properly so-called, and the thinly camouflaged relief in the form of 'transitional benefit' which could with truth be called a 'dole'. The question of moment in Great Britain—a question which only the future can decide—is whether an unemployment system can continue indefinitely to function side by side with a central-

ized scheme of public assistance, which gives equal or greater payments. In America the President has now made it known that a measure of unemployment insurance will be introduced in the new Congress. It will be interesting, in the light of the British and the German precedents, to see what form of scheme will be adopted. Whatever may be the nature of the scheme, however, experience has proved that to ensure success two cardinal principles must be observed—unswerving adherence to the insurance principle and strictness of administration. In England, the first departure from the true insurance principle was made with the best of intentions, but it was the direct cause of most of the subsequent troubles. A tendency to 'liberalise' benefits may be a real menace in America, and the possibility of lax administration in some States of the Union is not an idle apprehension. If the straight and narrow path of adherence to the insurance principle and of strict administration is followed, there is no doubt of the advantage that may be gained by a good unemployment insurance system, provided that it is started under suitable conditions. It will help to sustain an effective demand for goods in a time of declining trade and by so doing to maintain the standard of living and prevent the extreme hardships which have been suffered in the United States during the last four years.

CHAPTER VIII

The Dollar

Of all the activities of the American Government during its first year, the successive phases of its monetary policy have been the most puzzling. The course of the dollar has been like the flight of a snipe—now up, now down—with changes of direction which have defied prediction. To some people in Great Britain these changes have been agonising, to others merely inscrutable. They become intelligible, however, if the special difficulties of the United States are borne in mind. One of these is the natural desire of a 'Government of action' to show rapid results in dealing with widespread distress. The other is the urgent need for a rise in prices owing to the pressure of the gigantic burden of internal indebtedness. The debt of the central Government was comparatively small, but the total of State and municipal debts, railway bonds, farm mortgages, urban real estate bonds and mortgages, corporation bonds and other obligations reached the huge figure of $115 billion.

When the Government assumed office, it showed no intention of departing from strict financial orthodoxy; of leaving the gold standard; of currency manipulation; of attempts to raise prices by monetary methods; or of introducing unbalanced budgets. All indications were to the contrary. After dealing with the immediate needs of the banking collapse, the first measure taken by the Government was to balance its budget. The

task was not quite so heroic as that which faced the British Government in August 1931, or the French Government in April 1934. To cut the veterans' pensions, however, by over $400 million was no mean undertaking. The straitest sect of orthodox financiers could not have done more. Nor could they have cavilled at the embargo placed on gold exports on March 10, as being anything more than a mere precaution, seeing that the banking crisis was not yet wholly surmounted. Moreover, the embargo was not strictly enforced, and gold was allowed to move freely.

As the weeks drew on, however, and April succeeded March, the pressure of the volume of indebtedness began to be increasingly felt. This is evidenced by the Agricultural Adjustment Act, which was introduced and discussed during those weeks. The second part of this Act bears the sub-title of the 'Federal Emergency Mortgage Relief Act', and provides for the re-financing of farm mortgages by the liberal use of Federal credit. It was clear that if only prices would rise substantially the difficulty would solve itself. Otherwise, the sole alternative was a long series of multitudinous bankruptcies and compositions with creditors, which would involve great hardships and of which no one could foresee the possible reactions. So far, however, no active steps had been taken to raise prices, not even the orthodox method of lowering interest rates through open market operations by the Federal Reserve Bank. Moreover, every indication was given by the Government of its intention to act in concert with other nations and to pursue with them a policy of world currency stabilisation on a gold basis. In the third week in April Mr. Ramsay MacDonald visited the United States. His visit was followed by that of

M. Herriot, representing France, and of Signor Jung, on behalf of Italy. A joint statement was published after each of these visits. In the British-American statement, the desirability of a rise in prices was given special prominence, but the need for international action and for securing currency stabilisation on a gold basis was emphasised in them all. Meanwhile the pressure for inflation in order to cause a rise in prices was being increasingly exerted by the farmers' representatives in Congress. It resulted in the introduction on April 20 of the celebrated amendment by Senator Thomas to the Agricultural Adjustment Bill. By this amendment the President was given wide powers of inflation. He was empowered to instruct the Treasury to sell Federal securities direct to the Federal Reserve banks to the extent of three billion dollars; to issue 'Greenbacks' (as the United States dollar notes are termed) to a similar amount; to reduce the gold content of the dollar to an extent of not more than one-half; and to "fix the weight of the silver dollar . . . at a definite fixed ratio to the gold dollar", according as he might think necessary. It is significant to note that power was also given to the President, with the consent of the Federal Reserve Board, to put a brake on possible inflation by curtailing the creation of bank credit. The main importance of the Thomas amendment, however, lay in the fact that from this time onward the inflationary powers were there—ready to use. The President was not compelled to drink of the cup of inflation but it was placed ready for him to 'put his lips to if so disposed'. The way to inflation was open if it were desired to take it.

The subsequent development of American policy was of course continuous and cannot be rigidly divided

into sections. At the same time, it falls into fairly distinguishable phases. The second phase lasted from the end of April 1933 until the break-up of the World Economic Conference in August of that year. Up to the end of this period, the Government still adhered to the policy of concerted international action. The President's message on May 16 to the forty-six nations of the world was clear upon this point:

> The world faces a crisis of the first magnitude. If normal life is to be resumed, the World Economic Conference must be made a success. It must not only meet soon but come to its conclusions quickly. The task is so complex and difficult that, unless it is approached by all nations with the fullest and sincerest desire to arrive at a result, the Conference cannot succeed. But the other course before the world is clearly an increase in economic warfare and all nations must co-operate in attempting to avoid this alternative.

The change of orientation, however, which had already begun was becoming more apparent. It was desired to raise prices and to do so quickly, and it seemed that this could be done by domestic action. The abandonment of the gold standard on April 20 was followed by a rise in the price not only of securities on the New York Stock Exchange but also of commodities. In May there was a further rise in anticipation of the National Industrial Recovery Act, and by June 12, the day upon which the London Conference opened, wholesale prices were already twelve per cent above the level of two months previously and sixteen per cent higher than when the Government came into power. In such circumstances it was not surprising that among the objectives of national policy, stabilisation of international exchanges should take second place to a

rise in prices, and that there should be a shift of emphasis from international to domestic action. At the same time no incompatibility between the two was as yet apparent and there was no official change of policy.

The London Conference opened on June 12 and two main Committees or 'Commissions' were set up —the monetary and the economic. On June 19 Senator Key Pitman, on behalf of the American delegation, introduced a resolution at the Monetary Commission which emphasised in the strongest terms the need for the stabilisation of exchanges and of a return to the gold standard. The Commission proceeded to discuss the question during the following days, taking the resolution as their text. Meanwhile informal negotiations were taking place outside the Commission and rumours of disagreements became current. Attempts had been made by representatives of Great Britain, France and America to reach an understanding on the question of stabilisation. In the course of their discussions attention was called to the wide powers of inflation which had recently been granted to the President. Great Britain and France were afraid lest the use of these might prejudice the stability of any arrangements which might be reached. They asked, therefore, for an undertaking by the President that the use of these powers should be limited. The request coincided with a rise in the exchange rate of the dollar and a temporary break in stock exchange prices in the United States, and public opinion in that country reacted violently against any proposal for stabilisation on the ground that it would prevent a rise in prices. As a result of this, the American Government issued instructions for the currency

negotiations to be broken off, and on June 22 the whole situation at the Conference was altered by an official statement issued by the American delegation, to the effect that the American Government at Washington now found that measures of stabilisation would be untimely:

> The American Government at Washington finds that measures of temporary stabilisation now would be untimely. The reason why it is considered untimely is because the American Government feels that its efforts to raise prices are the most important contribution it can make and that anything that would interfere with these efforts and possibly cause a violent price recession would harm the Conference more than the lack of an immediate agreement for temporary stabilisation.

All was not yet at an end with the Conference and discussions continued on the question of credit and prices. On this subject the British and American views were more in accord. Both countries desired a rise in prices—as contrasted with the French who were not desirous of any such rise, at any rate in France. Meanwhile, a fresh attempt was made in London to reach an agreement on stabilisation, and a provisional understanding was reached. This was submitted to Washington. Instead of approval, however, it elicited from the President the now historic message rejecting it. It is easy to understand the reason for the reply if the special difficulties in the United States are appreciated. A speedy rise in prices was now the chief object of American policy. To achieve this end they had already employed open market operations. The use of two additional methods—the establishment of industrial codes and a great programme of public works—had been approved by the signature of the National In-

dustrial Recovery Act only a few days previously. Other inflationary powers had been placed in the hands of the President. Was he to forswear the use of them? The request that he should do so might be based on the highest banking opinion, but banking opinion at that moment was just as much at a discount—and with some reason—in the United States as it was respected in Europe. Moreover, the size and self-sufficiency of the United States render it more comparable to the Continent of Europe than to any one European country, and this naturally encouraged the belief that in raising prices they could work out their own salvation independently. It was not surprising, therefore, that when there appeared to be an incompatibility between the domestic policy of raising prices and the international policy of stabilisation, it was the latter which went to the wall. It was also not surprising that both the matter and the manner of the rebuff upset many of the European representatives at the Conference. The bitterness of it was beyond sweetening. Up to the eleventh hour the endorsement by the United States of the need for international stabilisation and of a return to the gold standard had been emphatic. Now, of a sudden it was all thrown over. What had in fact been a gradual shifting of weight in the balance seemed to continental statesmen like a sudden change as unaccountable as it was upsetting. Certainly it was complete. The President's message was like a high explosive. It shattered the Conference. Some of the fragments were subsequently pieced together, but its real usefulness was utterly destroyed.

From July 3 to October 22, 1933, the United States was absorbed in its domestic policy, while Europe was

an interested, disillusioned, sceptical and not very benevolent spectator. No use was made of the inflationary powers of which France and Great Britain had been so apprehensive. Currency policy, in other words, marked time. Appropriation of money for public works did not and could not have any immediate result. For any effect in raising the price level during these weeks the Government relied on the development of the N.R.A. and—to a much lesser extent—on the A.A.A. The work of the N.R.A. was pushed forward with great zeal and activity and riveted public attention in the United States. It caused the re-absorption into industry of a large number of unemployed workpeople—probably two millions by the middle of October—and thus substantially relieved unemployment. But as regards prices and production, results were much less satisfactory. In July speculative anticipation of increased costs under the codes sent prices up to 32 per cent above what they had been at the beginning of March. They then gradually sagged back again to 28 per cent. Production followed a similar course. It rose in July, through speculative buying, to more than 50 per cent above the level of March and then declined again steadily. The whole result was disappointing. The dollar, which on July 3 had sunk to 76 per cent of its par value, pursued its downward way somewhat irregularly to 68 cents on October 17. Prices, as compared with production, had sagged comparatively little from the highest point reached. The rise, however, had stopped, and the net gain either in prices or in production was not at all commensurate with the fall of the gold value of the dollar.

In the middle of October, some new development

was due. The President's expressed determination to effect a rise in prices was unaltered:

> I am not satisfied either with the amount or the extent of the rise and it is definitely part of our policy to increase the rise. . . . If we cannot do it this way, we will do it in another. Do it, we will.[1]

Which way would it be? On the one side were orthodox opinion and the sound money people. These were of many kinds. They included bankers and other capitalists, and the American Federation of Labour. They desired stabilisation and hoped that a successful conversion of Government debt on a small scale in the middle of the month might prove an inducement to the President to pursue that policy. At the other extreme were the out-and-out inflationists. To them belonged the farmers and also a section of industrialists, such as the members of a body recently formed under the high-sounding title of 'The Committee of the Nation'. The President chose a middle policy, which is generally associated with the name of Professor Warren. It was outlined in a radio speech by the President, which well deserves reading for the light which it throws on other objects and motives besides those which affect the currency policy. In it the President stated:

> I am going to establish a Government market for gold in the United States. Therefore, under the clearly defined authority of existing law, I am authorising the Reconstruction Finance Corporation to buy gold newly-mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market.

[1] Radio speech of October 22, 1933.

> My aim in taking this step is to establish and maintain continuous control.
>
> This is a policy, and not an expedient. It is not to be used merely to offset a temporary fall in prices. We are thus continuing to move toward a managed currency.[1]

The first purchase was made on October 25. At the outset, only newly-mined domestic gold was bought, but a few days later purchases were extended to foreign gold. In neither case were they considerable. By the end of the year, the total only amounted to $21 million of domestic gold and $54 million of foreign gold. Dealings in exchange were so restricted, however, that with the aid of 'bear' speculation, the gold purchases, small as they were, had considerable effect in keeping down the exchange value of the dollar, which would otherwise have risen. By January 2, 1934, the dollar had fallen to 63 cents. Prices, alas, proved intractable. Indeed, they actually slipped back a point, and, in terms of gold, the fall was considerably greater.

In the early days of 1934 which followed the meeting of Congress, the minds of all were preoccupied by the astounding figures of emergency expenditure called for by the President, and by the size of the budget deficit. Opinion, however, was still active on the question of currency policy. Adherents of the theory that prices could be raised by purchases of gold stated that the theory had never been properly tested. It required that gold should be bought and sold freely at the price fixed for the value of the dollar, and this had never been done. At the same time, silver enthusiasts were busy, and a Bill establishing a complete bimetallist system was introduced into the Senate. The

[1] Radio speech of October 22, 1933.

advocates of sound money, on the other hand, were hopeful that events would lead the President to stabilisation. In view of the budget deficit, the President might wish to obtain the profit that the Treasury would gain if the gold stock of the country were revalued in terms of depreciated dollars. To this end definite devaluation was necessary, and this involved stabilising the dollar. Moreover, stabilisation would help to maintain confidence, and this would assist Treasury reborrowing to meet the Government obligations which would be falling due for repayment.

On January 15 the eagerly expected message from the President was received by Congress. It was followed on the next day by the Gold Reserve Bill which, after some days of discussion in the Senate, became law on January 30. The Act contained four principal provisions:

(i) The President was empowered to stabilise the dollar and to vary the stabilised value between the limits of sixty per cent and fifty per cent of its former gold content;

(ii) The ownership of all the gold in the country was vested in the Treasury. In return, the Federal Reserve Banks were given gold certificates to an amount in dollars equivalent to the old par value of the gold which was taken over. In this way, the profit of $2,800,000,000 which resulted from the devaluation accrued to the Treasury.

(iii) A stabilisation fund was created of $2000 million and was placed under the exclusive control of the Secretary to the Treasury.

(iv) The Secretary to the Treasury, with the approval of the President, was empowered to buy and sell gold abroad.

On the following day the President issued a Pro-

clamation by which the dollar was provisionally stabilised at the rate of $35 for an ounce of gold, or 59·06 of its former gold content. The proclamation was followed by a huge influx of gold from Europe, and after about a week of uncertain movements the exchange value of the dollar sank to its new gold parity of 6·68 cents to the French franc.

The Gold Reserve Act was not the only currency measure passed during the Session of 1934. The Silver Purchase Act—a compromise measure—was passed late in the Session as a result of many manœuvres and parleys between the Administration and the silver advocates in Congress. The Act provides that one-quarter of the metallic basis of the currency should consist of silver or, in other words, that the proportion of gold to silver should be three to one. The Secretary to the Treasury was empowered to buy silver situated in the country at a price not exceeding 50 cents an ounce, and a later section in the Act gives authority to the President, if he thinks necessary, to acquire all the silver in the United States. The President exercised this power by Executive Order on August 9, and, with certain specific exceptions, the Government purchased all stocks of silver in the country at a price of 50·01 cents an ounce, the current market price being about 48 cents.

The present stock of gold amounts to $7700 million. Under the Act, the government stock of silver must be made equal to one-third of this amount, *i.e.* about $2567 million, in order that silver may form one quarter of the combined total. The existing stock of silver coins is about $840 million. The additional currency, therefore, made possible by the Act is a little over $1700 million. It is obvious that the power

to put into circulation so large an addition to the currency creates great possibilities of inflation. Discretion as to the exercise of these powers lies with the President. The new Order of August 9 gave rise to new rumours of impending inflation on a great scale. But the need for maintaining Federal credit unimpaired remains as strong a reason as ever for preserving the value of the currency.

Two assumptions have been implicit in the currency policy of the Government during the greater part of its term of office. The first is that the level of domestic prices can be increased by depreciating the currency. It is quite true that some change in prices is effected. The price of raw cotton, for example, is international, and a fall in the exchange value of the dollar is bound to increase the price in cents paid to the American exporter. At the same time, depreciation of the currency checks imports and raises the dollar price of goods which are still imported. It also stimulates exports. Both of these results tend to raise the American price-level. It is obvious, however, that the degree to which international prices are raised in any given interval of time depends on the strength of the influence exerted by such exports and imports. In other words, it is determined by the proportion which the foreign trade of a country bears to its total trade, domestic as well as international. In Great Britain and in Belgium, the whole structure of the country is permeated with foreign trade, and the results of depreciation spread rapidly. In France and in Italy, the effect is appreciably slower. Under certain circumstances, moreover, the effect of devaluation is to depress prices in the world generally rather than to raise them in the country in which devaluation takes

place. This is what happened when Great Britain left the gold standard. She was the chief importer of raw materials. Keen competition for her market prevented prices from rising in England, and exporting countries, such as Denmark, were forced either to leave the gold standard themselves or to accept proportionately lower prices when measured in terms of gold. The United States is the second greatest importing country, and there is evidence that devaluation of the dollar has had its influence in depressing prices in the countries from which her imports are derived. At the same time the foreign trade of the United States is very small in proportion to her internal trade. The depreciation of her currency, therefore, is not likely to raise domestic prices to any appreciable extent in a short space of time.

Depreciation of the dollar was also advocated by a considerable body of opinion for the other reason which has been mentioned—the stimulus which it would give to the export trade. The recovery of British trade, after the abandonment of the gold standard, was quoted as an argument in support of this opinion. To a limited extent, events have justified the advocates of this view. Substantial devaluation of the dollar began with the gold buying operations of the autumn of 1933 and was completed by the provisional stabilisation at the end of 1934. In the first half of 1934 the value of exports in dollars increased by 50 per cent above the corresponding period of 1933. The improvement is substantial, but not particularly striking when the extremely low level in 1933 is taken into account.

Considerable importance also attached to the general trend of public opinion, since it contributed to the

institution of the American Stabilisation Fund. Throughout this period, real if unwarranted suspicion was widely current as to the operations of the British Exchange Equalisation Fund. The dollar was in fact considerably undervalued, but nevertheless the belief was widespread that the Equalisation Fund was being deliberately used to force up the rate of exchange. This belief not only affected policy at the time, but found expression in the Senate during the debates on the Gold Relief Bill in January 1934. It was one of the causes which led to the establishment of the Stabilisation Fund and to the stabilisation of the dollar at a point below its real value.

It was also generally assumed that the policy of the Government was influenced by the theory that prices in any country depend on the amount of money in that country. If the country is on the gold standard or a 'gold bullion' standard, the possible amount of 'money' of all kinds, including credit, will be based on the total stock of gold for currency purposes which the country possesses. The fallacy of the theory when applied to short periods like trade cycles lies in the fact that it takes no account of the velocity of credit. Velocity is speed of circulation and depends on enterprise and confidence. Prices are determined as much by the velocity of credit as by money. The reason why prices have not risen more rapidly in America up to the present date is primarily due to low velocity of credit caused by lack of confidence.

The devaluation of the currency under the Gold Reserve Act created a profit of $2800 million. This profit, quite rightly and in full accord with precedent, was annexed by the Treasury. Its immediate effect upon prices, however, has been negligible and under

present conditions it cannot be otherwise. $2000 million have gone to create the Stabilisation Fund, but this sum may also be applied by the Secretary to the Treasury for the purchase of Government securities. The remaining $800 million may be used by the Treasury for general purposes. If the Treasury makes the fullest use of its powers in purchasing Government securities, the sellers of these securities will take their drafts on the Treasury and make deposits of $2000 million in the great deposit banks. The deposit banks, in turn, will pay the drafts into the Reserve Bank. The remaining $800 million may be disbursed by the Treasury for relief or public works and so create some spending public. Thus if they are so used, deposits will have grown by a proportion of the $800 million and the deposit banks will have increased their reserves with the Federal Reserve Banks by the same amount. The quantity and the movement of credit may be slightly increased by the expenditure of the $800 million. Beyond this, however, the effect on prices will be negligible since the existing amount of potential credit is already superabundant under present conditions.

For the future, the situation in the United States presents features which are significant and somewhat disquieting. Everyone, without distinction of class or political creed, hopes anxiously for recovery. But the moment that substantial progress to recovery is an established fact, the danger of inflation will become serious. The deposit banks can create approximately $10 of credit for every $1 of the reserves which they possess with the Federal Reserve Banks, but the demand for credit is so weak that in September 1934 their reserves in excess of what was necessary to sustain

the existing volume of deposits, amounted to $2000 million. The Treasury by using the 'profit' given to it by the Gold Reserve Act, has the power to increase these 'excess reserves' by as much as $2500 million and, under the recent Silver Act, by another $1500 million. By the employment of these reserves as a basis for expansion, the total volume of credit could be more than doubled and might lead to an outburst of speculation more spectacular and more disastrous than that of 1929. It is obvious that the Treasury would not wish to use this power in so absurd a fashion, and indeed, there is every indication to the contrary. But the problem of controlling the expansion of credit and of keeping it within bounds cannot be tackled too soon. A questionnaire upon the currency policy of the Government was sent out recently to business men, economists and others and elicited more than 800 replies. The majority of those who answered believed that there was a danger of inflation; rather more than one-half were of opinion that it could be controlled; but only one-quarter anticipated that the control would be effectively exercised. The currency clauses of the Agricultural Adjustment Act increased the power of the administration to control inflation, by giving the right to decrease the proportion of credit to reserves. But the Gold Reserve Act has made the position more difficult. In many countries the exact relation of the Treasury to the central bank is one of the mysteries of government. This is just as well. The curbing of credit is an unpopular act, and it is well that it should be exercised by a body that has a great sense of responsibility, but which is not immediately subject to popular pressure. By the Gold Reserve Act the American Treasury has in several

respects been put in a position co-equal with the Federal Reserve Banks (the central banking system), and in some respects this change may prove an embarrassment and not a convenience to the Government. The present Administration is clearly aware of the danger of inflation and opposed to its excesses. But it has to reckon with Congress. When prosperity comes at last, what an outcry there will be at any attempt to check or to hamper it! Will the Administration be ready to stand out against it, or would Congress be willing to override the Executive in such a case?

It is possible that some form of automatic check may be devised which would operate by varying the maximum ratio of bank deposits to reserves with the Federal Reserve Banks. Such an automatic system would be comparatively simple and effective, if the quantity of credit were the only thing that mattered. But the velocity of credit is as important or more important in a question of this kind than the quantity—a fact too often overlooked. Quantity is determinate, and not inherently difficult to reduce or increase. Velocity is elastic and depends upon psychology. It is therefore exceedingly difficult to control, especially in such a country as the United States. The dangers inherent in the situation are therefore formidable. And it is far better that the responsibility of taking action should rest with a non-political and, so far as possible, an independent body.

A number of criticisms have been directed against the system of provisional stabilisation instituted by the Gold Reserve Act, under which the President, after fixing the gold value of the dollar, is empowered to vary it within the limits of 60 per cent and 50 per cent of its former par value. It is difficult to see what

better course could have been followed. In all the changes of currency policy, the President has kept in view the ultimate attainment of two objectives. The first, strange as it may seem in the light of the history of the London Conference, is that of international agreement and stability of exchanges. It was subordinated, rightly or wrongly, at the time of the Conference to the speedier raising of domestic prices, but it was never abandoned. The other is a dollar which will be stable in terms of commodities, an object which is at present far from realisation. Stabilisation, however, on a provisional basis was possible. From the international, as well as the national point of view, it was better than no stabilisation at all. For the gold standard countries the position is full of uncertainties and anxieties. For Great Britain and the 'sterling area' the uncertainty is as great, but the anxieties are somewhat less. No recovery from the depression can be anticipated, however, until international trade is freed from the welter of exchange restrictions, quotas and licences with which it has been strangled during the last few years. To achieve this freedom, stability of exchange, especially between the greater nations, is of the first importance. The provisional stabilisation in the United States is to be welcomed, in so far as it is a first step that may make final and concerted stabilisation possible.

CHAPTER IX

Wall Street

The title to this chapter is, perhaps, more convenient than accurate. It is used as a compendious term to denote the business finance of the United States, and to distinguish it from public finance which includes questions of currency and credit, as well as of national expenditure and income.

Business finance in the United States has two distinct although inter-related parts—the commercial banking system, which is spread throughout the country, *i.e.* the deposit banks headed by the Federal Reserve Banks, and the financial organisations of the great centres and particularly of New York, 'Wall Street' strictly so-called. These include the investment banks, the head offices of the commercial or deposit banks, the stock exchanges, and all the rest of the complicated financial machinery of modern life. In both its aspects, business finance has played an important part in the depression and has figured prominently in the Recovery Programme.

A brief sketch of the American banking system, if only in barest outline, and of its differences from the British system, may be useful. Indeed, the bank crisis of March 1933 is unintelligible unless those differences are appreciated.

In Great Britain the framework of the commercial banking system is of the simplest. At the centre is one central bank—the Bank of England. Round it are a

handful of 'commercial' or 'deposit' banks, the 'Big Five' and others, twenty-four in all. These control the whole commercial banking of the nation and provide facilities throughout the country by their network of branches, which number 11,886.[1] The Bank of England directs the policy of the whole structure, and the control which it exercises is based more upon convention than upon law.

In America there is a great multitude of independent banks, some of them the largest, some among the smallest in the world. At the end of 1932, before the bank crisis, the total stood at 17,796, exclusive of mutual savings banks. Of central banks there are twelve—the twelve Federal Reserve Banks—one in each of the Federal Reserve cities throughout the Union. These are the broad outlines of the system, but it cannot be fully understood unless certain further details are included which somewhat complicate the picture. When the twelve Reserve Banks were instituted in 1913, they were intended to be really separate in the sense of being more or less independent. But though a modern nation may be very large, and its various parts may differ greatly, even as regards rates of interest, yet it is one financial entity. It cannot be split into watertight compartments. The policy of the different Reserve Banks, therefore, has gradually become unified. They are co-ordinated by a Federal Reserve Board. A joint open market committee, consisting of the governors of the twelve Federal Reserve Banks, decides on open-market operations, viz. on the purchase or the sale of Government securities. In addition, there are regular meetings of the chairmen and of the governors of the

[1] In addition to the above there are three banks in Northern Ireland with 260 branches.

different Reserve Banks. The Federal Reserve system, therefore, with its twelve Reserve Banks widely placed, constitutes one central banking system for the whole country. It is, in fact, a central bank in commission. It is a form gradually evolved since 1913 by natural forces in a country where the need for unified action has to be combined with the decentralisation necessary in so vast a territory.

The 17,796 independent banks also differed from one another, not only in size but in nature. Of these 6011 were incorporated under Federal Law and were known as 'national' banks. The remaining 11,785 were 'State' banks, incorporated in one or other of the forty-eight States, each of which has its own banking law. All the 'national' banks are members of the Federal Reserve system, while of the State banks less than 900 are 'member banks', although this minority comprises the most important of them.

The connection between the Federal Reserve Banks and the 'member banks' is very close. In each of the twelve Reserve districts the capital and reserves of the local Reserve Bank are actually subscribed by the 'member banks' in the district. They also appoint directors on its Board. They must keep their reserves with it, and they can and do borrow from it—largely, if necessary. Lastly, they are regularly subject to an examination by the Federal Reserve system, which is stricter than the supervision which is exercised by some of the States over the local State banks.

With such a multitude of independent banks, it may well be asked, 'How is the risk spread?' In other words, how are resources so pooled that if there is a sudden run on one bank, it can be met by the combined cash

resources of a number of banks spread over a wide area, and not only by those of the one bank affected? American banks, of course, do not and could not behave as if they were quite isolated units. A minority have branches, and in California branch banking is the general practice. In most cases a system of 'correspondent' banks exists. A number of small country banks will be 'correspondents' of a larger bank in the nearest big town. They may keep balances with it or may draw upon it. The larger bank will either be a 'member bank' of the Federal Reserve system and so in touch with the Reserve Bank of the district, or, if not, it will have relations with one of the great banks in New York. Such a system, of course, has not come about by chance. Just as the English system, now so simple, is an evolution from much more chaotic beginnings, so the American system is in a state of transition. Indeed, the nature of its evolution is not so very unlike that of the British, if the immense differences in time and conditions are taken into account. These conditions are responsible for a great deal. The long-continuing development of the country, spreading for ever westward; suspicion on the part of the farmers, who produce something tangible, of the moneyed man in the older settled areas; assertion by the States of their rights against Federal encroachment; resistance by the new great Southern and Western communities to domination by New York and its methods; all these influences, in addition to factors of distance and time, gave the small local banker his opening. Moreover, the man who availed himself of it was as often as not the leading member of the local community. In other words, he was one of a class whom politicians would not disturb unless forced to do so.

Circumstances such as these go far to explain the growth of independent local banks throughout the United States, and the failure of the first two attempts to establish a central bank. Since the last failure occurred two depressions have been signalised by bank collapses. It was not until after the bank crisis of 1907 that the Federal Reserve Banks were established. Their creation strengthened the banking system, but it remained very vulnerable. A 'correspondent' connection is a poor substitute for branch banking. The conduit pipe between the two banks is apt to be blocked at the most crucial moment. Just when the 'correspondent' bank needs help, the principal bank may be growing anxious about its own ability to meet calls upon it, and may decide that 'to be safe before you are generous' is a good banking motto. In branch banking the head office must willy-nilly put its own resources and those of its whole system behind the weakest branch.

Another source of weakness also contributed to the instability of the banking system of the United States. Banking practice could not be called universally orthodox. The distribution of assets in some balance sheets would have shocked a trained branch bank manager. Indeed, how could this be otherwise, when the small banker might often be a retired store-keeper or a successful farmer? The result was that failures were not infrequent even in the halcyon days before the slump. When hard times came, both the liquidity and the solvency of the banks began to cause anxiety. In the autumn of 1931, the trickle of failures became a spate of over a hundred a week. In 1932 conditions improved. The establishment of the Reconstruction Finance Corporation served to strengthen the weak

hands and confirm those knees that were feeble. Even so, a bad smash in Chicago was only averted through the situation being shored up by a loan of nearly 100 million dollars. In the winter of 1932–1933, however, matters grew worse. Various causes, political as well as financial, combined to intensify the prevailing mistrust in the solvency of the banks. Had failures been entirely confined to small banks, the trouble might have passed. It only needed the failure of a big bank to precipitate a general collapse. This came with the closing of the Detroit banks on February 14, 1933. The panic spread with increasing rapidity and the general closing of the banks followed on March 4.

The crisis passed, but two banking problems confronted the Government, the one immediate, the other more remote. The state of the banks throughout the country presented a difficulty with which it was not at all easy to deal. It was a prime necessity that the banking system should be supported and public confidence maintained. In his radio speech on March 12 the President had given a quasi-guarantee that any bank which was allowed to reopen after the banking holiday might be regarded as dependable. But the existence of the huge volume of domestic indebtedness, combined with the fall in prices, had tended to freeze alike assets and obligations. It was all-important, especially in the case of the banks, for the position to be made more liquid. The Reconstruction Finance Corporation therefore was authorised to acquire preference stock of banks, and large quantities of stock were created for the purpose. The banks thus obtained a supply of new and liquid capital and it helped the banking machine to continue to function with less likelihood of further mishap.

On June 16, the Banking Act of 1933—commonly known as the Glass-Steagall Act—was passed. Among a number of varied provisions, one of the most noteworthy was the establishment of the Federal Deposit Insurance Corporation. The provisions of the Act embraced both a temporary and a permanent scheme. Under the temporary scheme, deposits up to $2500 were to be insured in full after January 1, 1934. On and after July 1, 1934, insurances were to be extended under the so-called permanent plan. Deposits up to $10,000 were to be insured in full; up to $50,000 to three-quarters, and above that sum to one-half of their value. The law has since been amended to extend the temporary plan to July 1, 1935, but the limit of insurability has been raised from $2500 to $5000.

The scheme has been criticised as likely to put a premium on careless banking. This is certainly true if it is carried out in its entirety. Deposits of $5000 and under, however, amount to only a fraction of the total sum of deposits, while they represent over 95 per cent of the depositors. If, therefore, insurance is confined to small depositors, as is the case up to the present time, it is least open to criticism as an incentive to loose banking and most valuable as an antidote to panic. It is also provided by the Act, as amended, that before banks can join the system they must be examined and passed as solvent, and that by July 1937 they must become members of the Federal Reserve system.

The ultimate objective of banking policy is also a problem of first-class importance. Measures intended to buttress up the present position until easier days return, should interfere as little as possible with the

attainment of that objective. What ought that objective to be? The banking structure in the United States has always been unsound and liable to collapse in a time of panic. How is this to be amended? It is generally agreed that banks should not only refrain from speculative investments in bonds or stocks, but that they should be sufficiently liquid to meet the stress of depression as well as the easy conditions of a period of prosperity. Undoubtedly, a branch banking system which pools its risks over a wide area is best adapted for the purpose. There is still something, and in old times there was a good deal, to be said for the small independent bank. In the pioneering days it may have been true that the easy-going ways of the local bank made for rapid development, and that the benefit thus accruing to the country outweighed the occasional failure in which the depositor lost his savings. But the pioneering days are over. It is also untrue to say that the local banker knows his local folk, while the branch manager does not. Branch managers in small towns know that a vital element in the success of their business is an intimate knowledge of the people and the conditions in the neighbourhood. In fine, the ultimate objective is a branch banking system, suitably decentralised in order to fit American conditions.

There was probably little difference of opinion in the United States as to this being the ideal solution. Where opinions differed was on the rate of progress which could be made in the desired direction, and on the practical steps to be taken. A few bolder spirits were in favour of going forward and facing at once all the troubles involved in a thorough clean-up of the banking situation. They believed that if the opportunity for this were neglected it might not soon recur. Scylla

and Charybdis, however, were very near together and the strait between them was perilously narrow. Too drastic measures of reform might easily cause a new crop of bank failures and thus lead to a bad set-back to recovery. Nor could the effect of such failures be minimised as some optimists believed. The comfortable opinion is held by some people that the intelligent cashier in a small bank can be converted at once into a good local manager of a branch bank, if placed under proper instructions and advice from the head office of one of the great banks. The considered opinion of those engaged in branch banking is quite the contrary. Responsible general managers both in Great Britain and in Canada are unanimous in their opinion that a competent staff cannot be extemporised. Too drastic action, therefore, would involve the final closing of a large number of banks and a dearth of banking facilities in many districts.

There was, therefore, much to be said for going ahead more slowly, as the American Administration has done. Moreover, as the law stands to-day, a policy of progress, gradual it may be, but steady and continuous, has a good chance of success provided the will to progress exists. There are many obstacles in the way of the institution of a good branch banking system—obstacles due to traditional prejudice; to the legislation needed in a number of States; and to difficulties of organisation. But these obstacles are not so numerous or so great as they were. Opinion in favour of branch banking is growing and the power of the independent local bankers is on the wane. Some of them may not be so averse as previously to becoming absorbed into a larger system. The influence which the Reconstruction Finance Corporation can exercise

as an owner of preferred stock may be considerable. Also, banks which desire to have their deposits insured by the new Corporation—and very few feel that they are strong enough to stay outside with impunity—will be subject to the more rigorous examination of the Federal Reserve system when the permanent plan goes into full effect. In other words, provided that the American Government pursues a steady policy of encouraging branch banking, opportunities for consolidation should not be wanting, if and when there is a personnel in existence ready to take over the management and capable of doing so.

What has been discussed hitherto is the system—if indeed a haphazard congeries of units can be called a system—of commercial banks throughout the United States. Commercial banks, however, form only one of the two constituent parts of the great machine of American business finance which helped to cause and to accentuate the slump. The other part is what may be called headquarters finance in the great cities and particularly in New York. Its influence on events was equally important, although differing in character. If a distinction is drawn between the two, finance at headquarters may be said to have played a greater part in helping to cause the depression, while the weakness of the commercial banks provided the culminating and dramatic *débâcle*.

Allusion has already been made to the deceptiveness of the superficial likeness between Great Britain and the United States in politics and in finance. This is peculiarly true of the organisation of central finance in the big cities and, in particular, in the capitals of the two countries. In England, as in America, we have commercial banks such as the Midland and Lloyds;

merchant banks—or investment banks as they are called in the United States—which are issuing houses, such as Baring's or Lazard's; insurance companies; trust companies and brokerage houses *aliter* stock exchange firms. The issue of new securities in both countries is undertaken by issuing houses which help with the prospectus, arrange the underwriting, and are responsible for placing the securities on the market.[1] The Stock Exchange in New York is similar in form to the Stock Exchange in London. It was, until recent legislation was passed, a voluntary body, and its constitution, like that of the Stock Exchange in London, was that of a club. Both bodies made their own rules, and could discipline their own members if need should arise. Trading goes on day by day in both exchanges, now busy, now slack; often dull, sometimes exciting. Indeed, except for some difference in the manner of expression rather than in the matter expressed, the financial columns of the *New York Times* read much like those of *The Times* in London. There the likeness ends. In their actual working the financial systems of the two countries are at least as different as are their political constitutions. In England each unit in the financial machine is a separate cogwheel. It meshes in with the other cogs, but it is distinct. In London, as in New York, directors who manage one concern are frequently also directors of a company operating in some other part of the financial field. They act as a panel of advisers, however, in the second company and not as an interlocking directorate designed to exert

[1] One point of difference exists between issuing houses in Great Britain and in America. In Great Britain the issuing house is responsible for underwriting or guaranteeing the sale of a security. In America it is usual for a banking syndicate to purchase the issue outright and make its own arrangements for the sale.

influence or control. In New York, until recently, there has been no separation of financial functions, as in this country. Investment banks have received deposits on a large scale. Commercial banks have had 'security affiliates', *i.e.* subordinate departments or companies which deal with issues of securities. Bankers have acquired influence, almost if not quite amounting to *de facto* control, in insurance companies and investment trusts. Brokerage houses have instituted investment departments. Unity of action between groups otherwise separate has been secured by interlocking directorates. In this way, partly through control, partly through influence, a concentration of financial power has been effected, the like of which is not and never has been known in this country. It constitutes a financial oligarchy, of which the operations reach out beyond finance into the railroads and into industry.

The investment banks and their associates have for years dominated the issue of new securities. Public utility companies have endeavoured with some success to bring out new issues of their own stock without the aid of any middlemen, and other well-established companies have been able to do the same. But over a period of years, more than two-thirds of the new capital needed both by companies and by Governments has been obtained through the medium of investment banks.

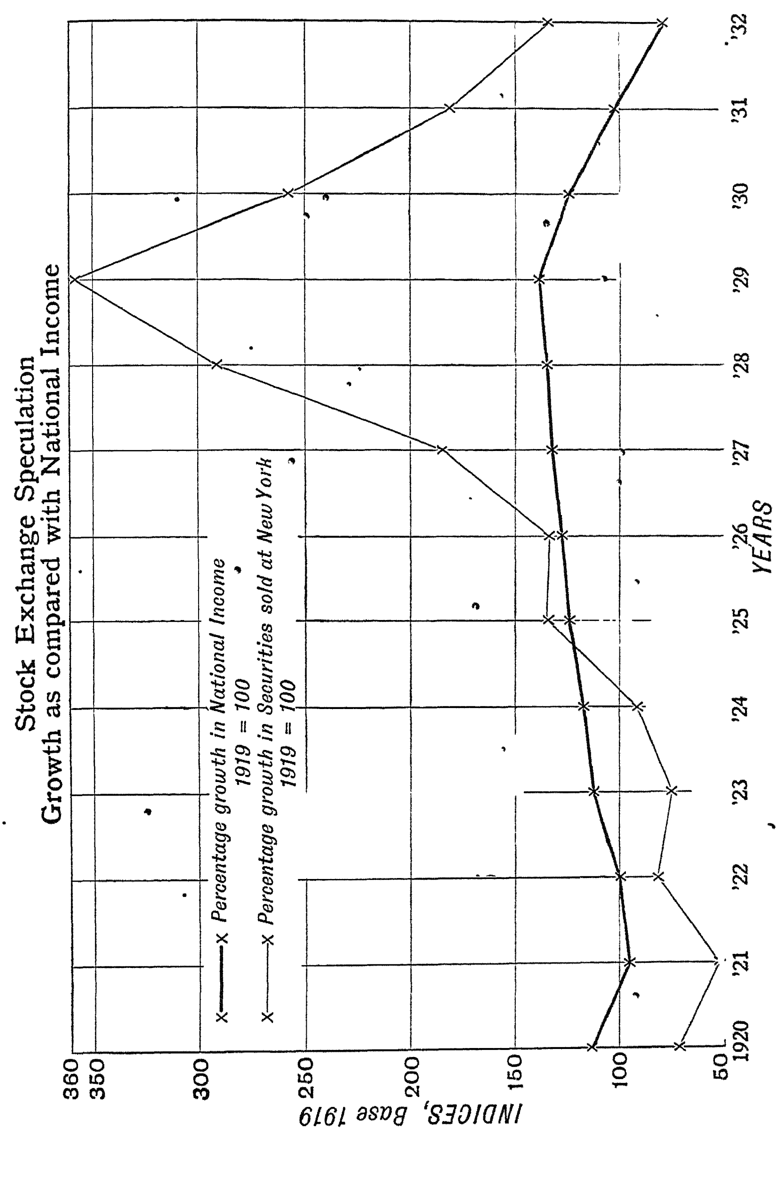
The abuses that occurred were exposed by the 'Pecora' Enquiry, conducted before the Senate Banking and Currency Commission. Exposure, however, was hardly needed. They were a matter of common knowledge. Issues were made without due care or regard for their real value. Use was made of controlled deposits as a means of getting such issues absorbed.

Stock was pumped into circulation, partly through allied businesses, partly through smaller houses. A smaller house might not wish to take a block of some particular issue, but it would be unwilling to refuse, for fear that it might not be offered an opportunity to participate on another occasion. The smaller houses, in turn, by 'high-pressure salesmanship', got rid of the stocks or bonds to the public—it might be to individuals; it might be to a country bank or other institution. In this manner a new security in America paid toll successively to two, three or more sets of middlemen before it reached the investor, instead of bearing a single charge for services rendered, as in this country. Nor could the investor in the United States be sure of so much protection as is afforded in England by the Companies Acts. There are forty-eight systems of Company Law in the forty-eight States of the Union. They vary indefinitely. At the nadir are the laws of Delaware—and 'Delaware Securities' have become a byword. The whole system gave endless opportunities for abuse, and they were not neglected.

The listing regulations of the New York Stock Exchange are a redeeming feature in the situation. Their requirements in the way of information give some of the protection which local laws may fail to provide. On the other hand, a considerable part of all the securities issued, in value as well as in number, are not dealt with on the New York Stock Exchange and do not, therefore, have to satisfy its requirements. In other respects the influence of the New York Stock Exchange on the welfare of individuals and of the public generally has been more dubious. No question has excited more controversy during the present year. In defence of the Exchange

has been urged the strictness of its listing requirements; the regulations imposed upon the various types of members; the restriction on advertising by members; and other measures of closer regulation which it had itself in contemplation. It is not possible within a short compass to enumerate the arguments for and against the existing system, but one general conclusion to which they lead is irresistible. The system of the Stock Exchange as a whole was geared up so as to increase the amount of speculation, and it was so constructed that the dice were loaded against the outside investor. Dealing on margins incited to gambling and increased the stakes. The activities of the 'floor-trader' tended to accentuate the acrobatics in prices. The odds against the outsider were increased by the presence of the 'specialist', who was both a broker and a jobber. The two capacities are hard to reconcile in any case. In addition, it was only too easy for him, with comparatively little risk of detection, to disclose information to 'pool operators'. The extent of the gambling is shown by the turn-over of shares, and the accompanying diagram serves as a temperature chart of the 'speculation fever'. It has been calculated that of the twenty-four most active shares, four times the whole share-holding of the companies in question changed hands during the year 1928, and one and a half times the entire share-holding of all the companies listed on the Exchange. Of course outsiders were losers at the game, and those outsiders numbered ten or eleven millions—one-twelfth of the whole population of the United States.

It has been argued that stock exchange activity stimulated trade; that it caused the flow of savings into new industries; that the public benefit outweighed


Stock Exchange Speculation
Growth as compared with National Income
Percentage growth in National Income 1919 = 100
Percentage growth in Securities sold at New York 1919 = 100
360
350
300
250
200
150
100
50
INDICES, Base 1919
1920
'21
'22
'23
'24
'25
'26
'27
'28
'29
'30
'31
'32
YEARS

the hurt to investors. If this could be proved it might palliate, though it would not justify, the harm done to millions of private individuals. But it has not been proved. In 1928, trading, mostly concentrated on a few well-established stocks, occurred to the extent of 74 billions of dollars. Such a mountain of speculation was not needed to produce the mouse of investment of four billions of dollars in new securities. Again, a stimulus to trade may be healthy or unhealthy. A rise in the price of stocks gives a healthy stimulus when it is a credible indication of increased production and profit-earning capacity. This was very far from being the case at the top of the boom in 1929. Further it must be remembered that the huge volume of loans to brokers was a direct cause of credit inflation on a great scale. The total of loans grew as prices rose and as the dollar value of the collateral security for the loans was increased. Production, in the meantime, had ceased to expand, and a great rise in security prices, which was not based on a growth in production, was bound to end in disaster.

It is sometimes said that the explanation of the whole system can be found in the conditions obtaining at the time when America was a debtor country, poor in accumulated wealth, but with great potentialities. Capital was needed to develop young industries. Hence the concentration of activities on *selling* new securities. Europe, on the other hand, had accumulated capital at a much earlier stage. Hence the European broker, working only on commission, makes it his special business to help the *buyer*. It is interesting, however, to note in this connection that the amount of speculation was much less when the United States was a debtor country than it was after the war, when

she had become a great creditor nation. This is true, both absolutely and in proportion to the growth in the wealth of the nation. The explanation of what occurred is probably the same as that of other admitted abuses in various ages and divers countries. A system which was devised to meet the circumstances of an earlier age continues to function under changed conditions. It then provides opportunities for easy profits, and advantage is taken of these until remedial measures are adopted and the system is changed. In the United States, so long as prosperity prevailed, there was not likely to be much outcry. Some might procure more than their fair share of the fat things of the earth, and they might obtain them by questionable methods. But why bother? Why raise an outcry when there was cream enough left to go round? The seven years of fatness followed one another like the fat kine of Pharaoh. It was only when the lean years succeeded the fat that a time of national introspection was likely to occur.

Times of depression have usually furnished occasion for enquiries into finance and stock markets. The 73rd Congress proved no exception. The first of the measures to deal with the subject was the Securities Act of 1933. Its object was to "provide full and fair disclosure of the character of securities and to prevent frauds in the sales thereof". It is frequently said of the Act that the burdens and penalties which it imposes are so excessive that it has stopped new issues, and that it is altogether responsible for the stagnation in the capital goods industries. The last statement is an exaggeration of aggrieved imaginations. In some respects, however, the Act undoubtedly went much too far. It was modelled on the British Companies Act of 1929, but, in a

number of respects, it went considerably beyond it. In England an action may be based upon an untrue statement in a prospectus, but it can only be brought by a person who subscribed for shares on the strength of that prospectus. Under the Securities Act, however, such an action may also be brought by purchasers of securities in the open market at any time within ten years of the date of the issue. In England a plaintiff must prove that in making his purchase of shares he relied upon the statements contained in the prospectus. The Securities Act contained no such requirement. Moreover, it conferred on the plaintiff the right to sue not only for damages, as is the case under the Companies Act, but also for the return of the price which he paid for the shares. Other points in which the Securities Act differed from the English Act included the amount of information which was required in the prospectus; the substitution of liability in damages in place of a fine as the penalty for omissions of fact in it; the extent of the liability imposed upon accountants and other experts; and the degree of care which must be exercised by directors, if it is to constitute a valid defence.

As a result of the representations made upon the subject, a number of amendments to the Act were incorporated in Part II. of the Securities Exchange Act of 1934. Purchasers of shares in the open market must prove reliance upon the prospectus in any action for damages; the measure of damages is sensibly modified and underwriters are relieved of liability for mistakes in statements made by experts, if they can prove that they had no reason to believe that the statements were untrue. The period of ten years during which an action could be brought under the original Act is in every case reduced to five years. These and other

alterations have amended most of the provisions of the Act to which reasonable objections could be taken.

The second measure which dealt with business finance was the Glass-Steagall Act. Among other provisions this Act insisted upon a separation between investment and commercial banking. More important, however, in remedying the evils inherent in the present organisation of finance is the 'Code for Investment Bankers' and the elaborate supplement containing 'Fair Practice Amendments' to the code, which was approved by the President on March 23, 1934. The existence of abuses both in the issue of securities and in salesmanship was admitted in the statement which was made by Mr. Christie, the late President of the Investment Bankers' Association, and the code, with its supplement, should go a long way to eradicate these. Mr. Christie remarked in the course of his statement that "all the negative regulations conceivable do not create a single new issue of securities; they do not finance a single new industry". This is true, and it is equally true that any number of negative regulations of conduct will not make a sinful man virtuous. Unless the regulations are approved by those affected, or enforced by public opinion, they only provoke attempts at evasion which contravene the spirit of the regulations, while they observe the letter. It is the age-old difference between the Mosaic Tablets and the Sermon on the Mount. For that reason, the regulation of the investment bankers by themselves is to be welcomed. The 'Fair Practice' amendments are the result of wide and general discussion over a period of more than three months. It is premature to anticipate how they will work in practice, but there is every reason to hope that great improvements

will result, *provided* that the investment bankers act according to the spirit in which their code and its supplement have been framed.

The third measure dealing with finance was the Securities Exchange Act of 1934. The need for any drastic change was at first denied by the authorities of the New York Stock Exchange and any Bill would have met with protests. But the Securities Exchange Bill was much too hasty and unconsidered a measure. Good laws are not made by throwing an ink-pot at the Devil, as Martin Luther did in an access of righteous anger. The violence of the opposition aroused; the extensive propaganda initiated by the Stock Exchange; the amendments in Congress; and the final adjustments of differences between the two houses—including the outburst of Senator Glass—were among the main legislative features of the 1934 Session. In the end, the measure appears to be fair. The principal result of the Act is to place stock exchanges in the United States under the regulation of a new Commission of five persons appointed for the purpose. Brokers in the future are only allowed to borrow from banks which are subject to the regulations of the Federal Reserve Board, and the Board is also given power to control the percentage of credit which may be given on margin trading. Instead of the detailed requirements on other matters which were contained in the original Bill, much will be left to the discretion of the New Board. Among their duties will be those of putting an end, so far as is practicable, to the same person acting both as broker and dealer and of stopping manipulative trading and abuses of short-selling. Much will depend, however, on the attitude of the Stock Exchange. *If* they are prepared to make the best of the new Act,

the new system should work considerably better than the old.

It is in the *if* and in the previous *provided* that the crux of the situation lies, both as regards commercial banking throughout the United States and the financial world of New York. Of the Government two things are needed: that it should pursue its policy tenaciously when the country recovers and grows more prosperous; and that it should do so in co-operation with the banks, if the banks will play their part. Of the leading banks two things are also needed: a steady enlargement of their trained staff, so that they may be able to take over or establish branches when the opportunities offer; and a more puritanical convention forming itself into a tradition on the part of bankers, both as regards the financial policy of the bank and the financial activities of its chief officials. Will these be forthcoming? The issue lies in the wills and the dispositions of men rather than in any statutes, however well-devised and wisely framed. Good banking is like virtue. It cannot be created by Act of Parliament.

CHAPTER X

The Recovery Balance Sheet

1. THE COST

THE mounting total of public expenditure and of the National Debt has been a continuing and impressive feature of the Recovery Administration. In the President's Budget Message on January 4, 1934, it was announced that the Government proposed to spend the sum of $10,569 million in the financial year ending June 30, 1934, involving an increase in the National Debt of $7309 million. All the world over, opposition parties are shocked at governmental extravagance, and are strongly in favour of economy in the abstract. As was to be expected, therefore, these huge figures 'shocked' the Republican Party. One representative of that Party stated that 'he was so overcome and shocked that he would not recover for days'. Republican Senators discussed an opposition programme of rigid economy, which would have been more convincing if it had not included expenditure on "better treatment of the service-injured soldiers". Some of the President's supporters, on the other hand, were not only complacent but were prepared light-heartedly to increase expenditure still further. When figures become astronomical, they cease to carry meaning to many persons. Otherwise, so huge an expenditure in a time of peace could not have failed to cause anxiety to everyone.

The figures need to be examined from several aspects.

How long is expenditure on this level likely to continue? What is the ability of the country to support so great a burden? Has the expenditure upon relief been necessary? In what measure has success been achieved, or is it likely to be achieved in promoting recovery, or in effecting the reforms which the Administration had set before itself?

The growth in Federal expenditure and in the volume of the debt is given in the following table:

REVENUE, EXPENDITURE AND FEDERAL DEBT
(Millions of dollars)

Year ending June 30	Revenue	Expenditure	Surplus or Deficit	Federal Debt [1]
1928	4042	3103	+939	17,604
1929	4033	3299	+734	16,931
1930	4178	3440	+738	16,185
1931 [2]	3190	3652	-462	16,801
1932	2006	4741	-2735	19,487
1933				
Ordinary		3404		
Emergency—R.F.C.		1277		
Total	2080	4681	-2601	22,539
1934				
Ordinary		2741		
Emergency—R.F.C.		1615		
,, All others		2389		
Total	3116	6745	-3629	27,053
1935				
Ordinary		3238		
Emergency—R.F.C.		-480 [3]		
,, All others		1203		
Additional		2000		
Total	3975	5961	-1986	

[1] Discrepancies between the figures for surplus or deficit and increases or decreases in the Federal Debt are accounted for by changes in the balance in the hands of the Treasury, and, since 1933, by surpluses or deficits in the Trust Funds account.

[2] Only the balances of trust and contributed funds are included in 1931 and subsequent years.

[3] Excess of credits.

The figures for 1928–1934 are taken from the official statements of receipts and expenditure, but sums paid for the reduction of debt, whether through the Sinking Fund or otherwise, are deducted from the totals of expenditure.[1] 'General' and 'Emergency' expenditure were separated for the first time in 1933–1934. In the previous years, a considerable and increasing amount of expenditure had been incurred for emergency purposes—for example, to meet the very heavy cost of the purchases of wheat and cotton out of the Agricultural Marketing Fund under President Hoover.[2] With the exception, however, of loans made through the Reconstruction Finance Corporation, which was instituted in January 1932, it is impossible, before the financial year 1932–1933, to distinguish such 'emergency' payments from ordinary expenditure, with any degree of accuracy.

In the Budget Estimate for 1934–1935, it was calculated that there would be a surplus of $14 million, after taking credit for net loan repayments to the R.F.C. amounting to $480 million. In addition, however, to the sums mentioned in the estimates, the President decided to ask Congress for a further $2000 million to meet possible emergency expenditure. This sum was probably put forward as an outside figure. It is quite likely, however, that it will be reached and even exceeded, as the considerable postponements in expenditure in the financial year 1933–4 may help to swell the total in the year 1934–5. If the aggregate expenditures over the two-year period 1933–1935 reach

[1] These sums amounted (in millions of dollars) to 440 in 1931, 413 in 1932, 462 in 1933, 360 in 1934, and 526 (estimated) in 1935.

[2] The net expenditure from the Agricultural Marketing Fund (in million dollars) was:—in 1930, 150; in 1931, 191; in 1932, 136 and in 1933 there was a surplus of receipts of three million dollars.

the totals shown in the estimates, the financial year 1934–1935 will end with a gross debt of from $31 to $32 million.

Since 1931 considerable loan payments are included in the general total. A small proportion of these consist of advances made by the Public Works Administration to local authorities, railways, etc. More than 97 per cent, however, of the total of such loans in 1933–1934 consisted of payments made through the Reconstruction Finance Corporation, and expenditure under this heading increased from $768 million in 1931–1932 to $1277 million in 1932–1933 and $1615 million in 1933–1934. In the great proportion of these loans repayment is both intended and expected. The activities of the Reconstruction Finance Corporation up to June 30, 1934, show the extent to which this principle has been maintained. During that period authorisation was given for payments up to $4739 million. $3727 million were actually disbursed, of which $1343 million had already been repaid, leaving $2384 million outstanding.[1] Allowance must be made, therefore, for such repayments before any estimate is made of the real burden of the Federal debt. The budget estimate of the net total of these repayments by June 1935 was $2500 million, but as the issue of loans has fallen short of the estimate, the sum of probable repayments should be reduced also.

It must not be forgotten, however, that the Government has assumed liabilities in other directions. From a financial point of view the new Home Credit Insur-

[1] The total figure of $3727 million is exclusive of advances to other Government Agencies or to States for relief. Of the sum outstanding $831 million is on account of purchase of or loans on preferred stock, debentures etc. of banks and trust companies, and $362 million is for loans for reorganisation or liquidation of closed financial institutions.

ance Corporation is primarily an insurance company, and there is no reason to suppose that the capital of $200 million with which it has been supplied will not suffice to meet all calls upon it. The Government has, however, made itself liable for large sums by its guarantee of two other semi-governmental institutions —the Farm Credit Administration and the Home Owners' Loans Corporation. The objects of the former and the nature of the organisation which it has created have already been described in the chapter dealing with agriculture. The purpose of the Home Owners' Loan Corporation is the refinancing of mortgages for individual house-owners. On May 31, 1934, the institutions under the supervision of the Farm Credit Administration had $2697 million outstanding, and the Home Owners' Loans Corporation $1078 million on July 8. The operations of both bodies are expanding and the commitments of the Home Owners' Loans Corporation in particular may well be doubled within the next year. It is doubtful, however, whether their combined obligations will at any time exceed $5000 million. In the case of both Corporations, valuations for mortgages and arrangements for amortisation have been made carefully. In some of the other classes of agricultural loans, the security is not so good. These are comparatively small in amount, however, as compared with the mortgage credit involved. The average percentage of repayment, therefore, should be high and the call on the Federal Guarantee should be correspondingly small. On this showing, provided that there are no further visitations of the magnitude of the drought during the early summer of the year 1934 and after discounting future repayments, the net dead weight debt of the Federal Government should

not exceed $29 billion at the end of the financial year 1934–1935.

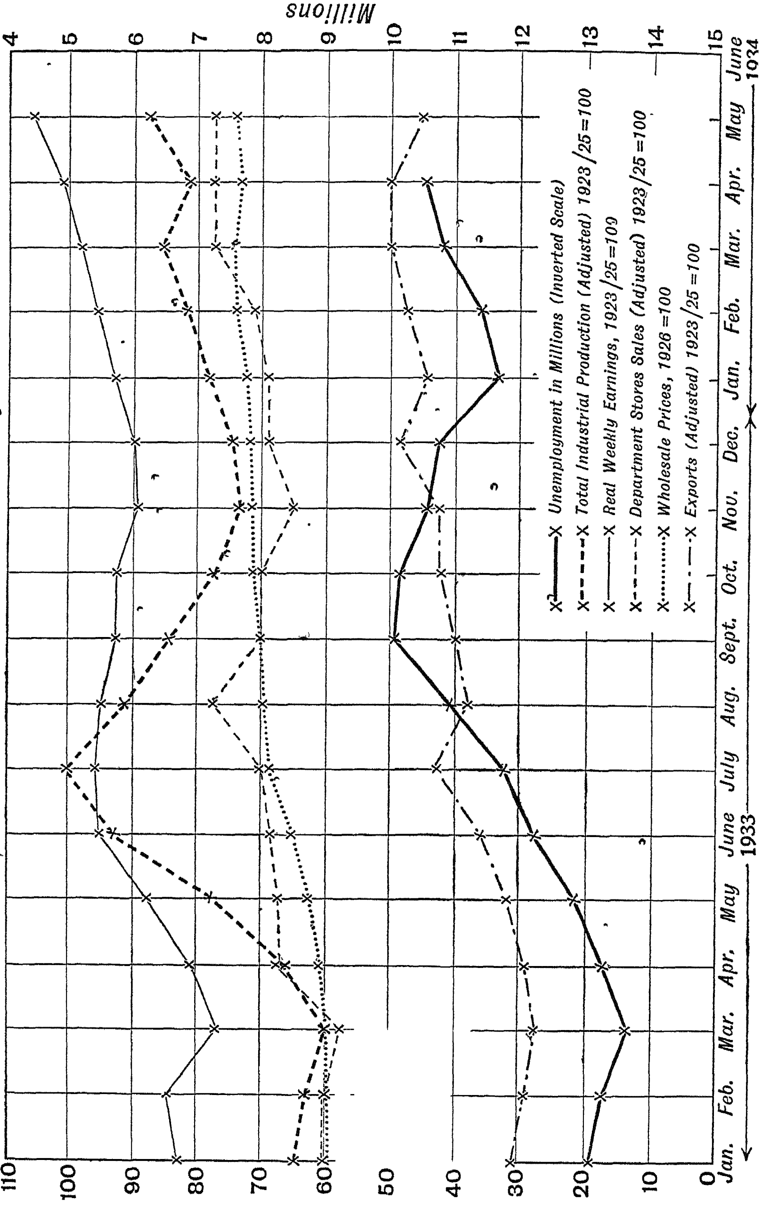
2. THE ACHIEVEMENT

Immense sums have been spent and great obligations have been contracted. It may well be asked whether they are justified by the achievements of the Government, both in present performance and in future promise. To answer this question it is necessary to form a general judgment of the Government's record as a whole. This can best be done by bringing together the different activities of the Administration and the opinions formed upon them into one general appraisement.

The chart on the following page shows the advance which has been made in the different spheres of the economic and social life of the nation, so far as it can be shown by statistics. Charts without a statement of the facts, however, are like faith without works. A short commentary, therefore, is given on each of the subjects which appear in the chart as well as on those others which cannot be epitomised in diagrammatic form.

The principal—and perhaps the only reliable—test by which recovery can be measured is by the amount of industrial production. Other statistics, such as employment figures or the total of pay-rolls, are of use in showing how work has been spread or how wages have been raised under the N.I.R.A., but they are completely misleading as criteria of recovery. The spectacular rise in the course of production in July 1933 and the inevitable reaction have already been discussed. They probably retarded a steady and genuine recovery but otherwise may be disregarded. The most

Indices of Industrial Recovery.



reliable estimate of the amount of permanent recovery up to the end of June 1934 is afforded by a comparison of the figures of industrial production for March 1933 with those of March 1934. This gain was in the neighbourhood of 33 per cent and the estimate is not appreciably affected by the figures for the second quarter of 1934, as a seasonal slackness usually occurs in the midsummer months. Figures for July, however, indicate a decrease which is considerably greater than usual. It is no doubt due in part to the results of the drought in the North-West.

The maintenance or resumption of a good rate of progress will depend very largely on the growth of a natural demand for durable goods—that is to say, of goods of lasting utility.[1] The most marked characteristic of every trade cycle is the fall, followed by the revival, in the durable goods industries, and it is not too much to say that the secret of the trade cycle—and of all the suffering that it causes—can be found in the behaviour of these goods. The present depression is much more than the ordinary cyclical recession in trade, and was rendered inevitable by other causes, but in this respect it has shown the characteristic features of the trade cycle. The production of non-durable—or consumption—goods in the United States did not fall below 79 per cent of the 1923–1925 level and by the end of June 1934 it had already recovered to 98 per cent of that standard. By the same date the production of durable goods, which had fallen previously to 25 per cent of the

[1] "Durable" goods include iron and steel, coke, non-ferrous metals, lumber, cement, polished plate glass, automobiles, locomotives, and shipbuilding.

"Non-durable" goods include textiles, leather products, foods, tobacco, and other manufactures not in the "durable" group.

1923–1925 level, had only reached 68 per cent. Even this degree of recovery is not so satisfactory as it appears at first glance. Automobiles are classed as durable goods—surprising as the word may appear when applied to automobiles in America—and the automobile industry in America has of late been abnormally busy. Part of the improvement, also, has been due to Government expenditure on Public Works and Civil Works, and this can only be a temporary stimulus. When that programme comes to an end, it is vital that the gap should be filled by orders placed in the ordinary course of business. In previous trade cycles, recovery has been accelerated by the emergence of new requirements, such as the demand in the past for automobiles and skyscrapers. In the present case, arrears of maintenance and repairs, accumulated during four years of depression, will create a considerable demand, but the only new stimulus on a large scale for durable goods which can be discerned is the erection and improvement of the smaller types of dwelling-houses. Hence it is that the American housing programme and its rapid prosecution has not only a social but a high recovery value.

Conditions of work and the standard of living of men and women who work under the N.R.A. have shown a definite improvement since March 1933. Wages have risen substantially. To measure the true increase it is necessary to take the average of 'real earnings'—that is to say, after allowance has been made for changes in the cost of living. The increase in the average of real weekly earnings since March 1933 has been over 39 per cent—despite the decrease in the number of hours worked.

Under the codes, the standard working week has

been reduced to forty hours. This reduction is a boon to the workman concerned, provided that his employment does not suffer—a contingency which is less likely in America which is not greatly exposed to competition from other nations in which working hours are not so limited. Actually the average number of weekly hours worked has decreased but little since March 1933, owing to the amount of short-time worked at the earlier date.

Unemployment has diminished substantially though it is still very severe. The number of unemployed has fallen from over 13,533,000 in March 1933 to 10,026,000 in June 1934. The percentage of employment in manufacturing industries also has shown an improvement of 38 per cent. For the worker this is a great gain. As a sign of recovery it is less satisfactory, as only a minor part of the improvement represents a permanent gain through a genuine increase in trade. The main part is due to the spreading of work through the decrease in hours, or to temporary work provided under the P.W.A. and the C.W.A.

One of the principal aims of American policy has been to raise the domestic price-level. From statistics published by the United States Bureau of Labour, it appears that in March 1933 wholesale prices were three-fifths of what they were in 1926. By June 1934 they had risen by nearly a quarter and were 75 per cent of the 1926 level. Some of this increase was undoubtedly due to the rise which generally follows any degree of recovery; some to the increased costs of production occasioned by the N.I.R.A.[1] and the

[1] Though the effect of the N.I.R.A. upon the cost of production has been appreciable, it should not be exaggerated. In smaller trades in which wages have been low and hours of work irregular, the effect

Agricultural Adjustment Act. The effect on the domestic price-level of the 40 per cent depreciation of the dollar has been insignificant.

Farm products have risen in price more than other commodities. Between March 1933 and April 1934 the prices of wheat, cotton, corn and tobacco have all risen. Only hogs have proved intractable. The rise for the average of all farm products has been 40 per cent. This is the result of the various restriction schemes, and in accordance with the policy of the Government. Farm prices had fallen so much more than those for other goods, however, that although their proportionate rise has been greater under the present Administration, they have not yet regained their old position in comparison with other commodities. This comparative position is expressed in the farmers' ratio, which has been explained in a previous chapter. The ratio has risen from 50 per cent to 62 per cent of that for the basic period of 1907 to 1914. In other words, farmers have improved their position substantially, but it is still far below the pre-war level or that of 1929.

The intractable problem of internal indebtedness has been brought much nearer solution under the present Administration. Farm mortgages and home mortgages, which have been discussed in detail in previous chapters, form only two items in the total volume of the internal indebtedness of the United States. This is estimated at $134 billion as against $38 billion before the war.[1] Since 1929, values have fallen by two-fifths and the national income has been reduced by more

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has been considerable. But in many of the larger and more highly organized industries it has not been great.

[1] Evans Clark, *The Internal Debts of the United States.*

than one-half—from $85 billion to $38 billion. The burden of interest payments became insupportable; repayment of loans was impossible; and the whole economic system was made rigid. Similar difficulties have occurred in previous depressions and were resolved through a series of individual liquidations and compositions with creditors. In the present case, however, the pressure has been more universal and severe than on former occasions and some other solution had to be found. For that reason, great value attaches to the work of the R.F.C., the Farm Credit Administration, the Home-Owners' Loan Corporation and the new Home Credit Insurance Corporation. A steady liquidation of debts with the aid of these agencies is further facilitated by the concurrent rise in the general domestic price-level which has been already mentioned. This is probably the best way of dealing with the debt problem—subject always to the one over-riding necessity—that Federal credit is maintained unimpaired.

The American banking system has been described in the previous chapter. Many of the weaker banks have been weeded out and, up to the end of 1933, 1100 had been placed in liquidation or receivership. The Federal Deposit Insurance system, so far, is working satisfactorily and has been joined by 95 per cent of all the banks, excluding those who are not licensed to operate on an unrestricted basis. As yet, the casualties which may prove to be a claim upon its funds only amount to two small banks, out of a total of 14,000. Provided that the system is not extended to cover large deposits, there is no reason why it should not be successful. The banking situation, as a whole, is in a stronger position than it was before the closing of

the banks on March 4, 1933. A long distance has to be traversed, however, and many difficulties surmounted before the American banking system is worthy of a great country.

The Securities Act of 1933 and the Securities Exchange Act of 1934 are among the two most controversial measures of the present Administration. They are certainly not recovery measures. Such effect as they have had has been to retard recovery by creating apprehension in the financial world at a time when confidence and cordial co-operation were most necessary. The ill-effects of the Securities Act of 1933 have probably been exaggerated, but there is no question that it went much too far. The Securities Exchange Act of 1934 excited vehement opposition, but opposition would probably have been aroused by the imposition of any system of regulation.

Are these Acts a liability or an asset in the balance sheet of the Government? All imperfections and shortcomings notwithstanding, they are certainly an asset. Better a delay in recovery than a recovery which contains the seeds of a fresh disaster. It is not suggested that the whole of the speculative boom in 1929 in America was due to the investment banks and the stock exchanges. The cheap-money policy of the Federal Reserve Banks in 1927 had already set the stage for a rise in prices. But the extent to which the movement got out of hand and the fantastic heights to which security prices rose were largely due to the pushing of securities on to the market and to the rigging of shares on the stock exchange. In this way the existing financial system greatly accentuated the steepness and the severity of the depression. It may be argued that speculation in the United States cannot

be stopped by Act of Congress—that if one way is barred, ingenuity will find another. *Naturam expellas furca tamen usque recurrit.* If this be true, why has not this tendency to speculation been a constant feature of American life? In sober fact, it did not begin until the latter half of the 'crazy decade'.

A feature of less happy augury is the growth of labour troubles. The unrest in California culminated in the general strike in San Francisco in July 1934. Disputes in the iron and steel trades and the automobile industry, which might have proved a serious set-back to recovery, have with difficulty been avoided. A large number of lesser strikes have also occurred and have caused a great loss of working days in the year which has elapsed since June 1933. These strikes are instances of the prevalent industrial unrest. The N.I.R.A. is frequently credited with the responsibility for this. It is true that the Act gave a sanction and a blessing to the right of workmen to collective bargaining. By this action the question of collective bargaining was brought into prominence, and it has undoubtedly been the cause of the majority of the disputes which have taken place. On the other hand, the support which has been given to the President's programme by prominent trade union leaders, such as Mr. Green and Mr. John Lewis, has contributed to the settlement of some disputes and prevented the actual occurrence of strikes. On balance it is probable that there have been more disputes than would have occurred if the N.I.R.A. had not been brought into existence. Serious labour troubles, however, were inevitable in any case. The depression in trade and the consequent widespread unemployment had caused great misery. For the most part hardships

were borne with amazing patience. But after four years of suffering, some measure of disquiet and discontent was bound to result, especially when it appeared that circumstances warranted an improvement in working conditions. Moreover, influences exist outside the recognized labour ranks which are ready to seize upon any manifestation of unrest and to use it for their own purposes. With such loose tinder lying about, a flare-up like that in San Francisco was not surprising.

The most serious criticism which can be brought against the present administration is in respect of its monetary policy. To stress the importance of confidence as the handmaid of recovery has become a platitude which is almost wearisome. But in this case, as so often, the greater the platitude the greater the truth. It may be worth while deliberately to risk a temporary shock to confidence in order to attain an important objective in the more distant future. The currency policy of the American Government, however, cannot be defended on this ground. The abandonment of the gold standard in the United States was spontaneous. It was not forced upon the country. Through the deliberate depreciation of the dollar, the nation gained a definite, though not a substantial advantage in its export trade. The effect upon domestic prices, however, has been negligible, except in the cotton and tobacco growing areas. These gains are not commensurate with the disadvantages which the country has suffered through the uncertainty during the latter half of 1933 as to the future value of the currency. The pressure for inflation by farmers and the 'Silver States' has exerted an unfortunate influence during the whole of the present Administration. "A man's foes shall be they of his own household." It is clear that the Presi-

dent and his advisers are aware of the danger of currency inflation; of the apprehension which it would create, and the harm to recovery it would cause. It is devoutly to be hoped that the Silver Purchase Bill will be the last concession to be made to an irresponsible but powerful section of Congress and that the nation will have a respite during which confidence and the natural forces of recovery will be allowed to operate.

Is the Government justified by its record? An outline has been given of the results of the principal activities of the Government and a brief summary of the whole situation may now be attempted.

The financial position of the United States up to the present time is not a cause for serious anxiety. The total of expenditure has indeed greatly exceeded any figure hitherto reached in times of peace and deficits in the budget and the growth of the Federal Debt have created general apprehension. This alarm, although natural, is exaggerated. The burden of the Federal debt, in relation to the wealth of the nation, is less than one-quarter of the British national debt, and the burden of taxation, which seems so heavy to American taxpayers, is one which Englishmen would thankfully exchange for their own. The outlook for the future is a cause for more legitimate misgivings. In his budget message on January 4, 1934, the President stated his belief that the budget for 1935–1936 would be balanced. The rate of revival for the first half of 1934, however, has not been so substantial as to render it likely that the expenditure on relief, direct or indirect, will have wholly ceased by the end of the present financial year. By the end of the following financial year, there should be good hope of budget stability.

But the lesson of the past five years makes it clear that in a time of depression a balanced budget is never certain until it has been achieved.

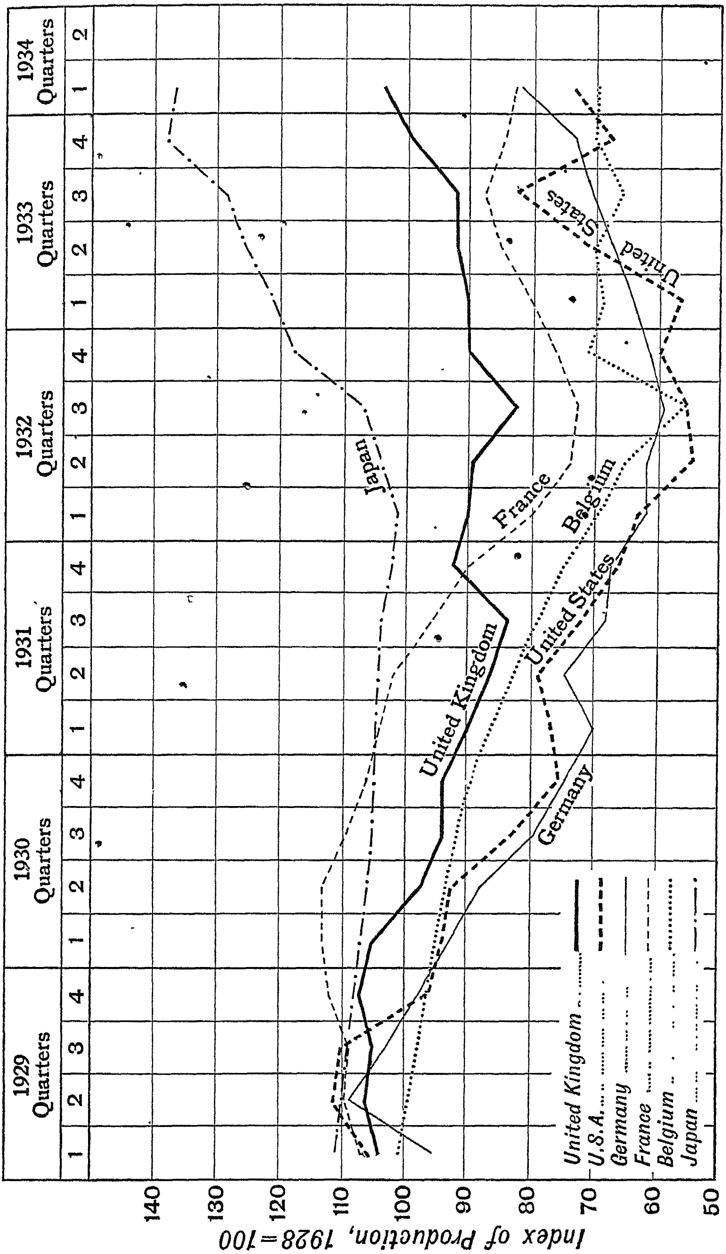
In the field of political action there is no yard-stick by which to measure the degree of success or of failure. Judgments differ on measures, on results and on possibilities, according to the propensities of those who form them. One consideration should be borne in mind, however, before a final judgment is passed. There is a tendency in the United States to see the spectre of socialism or of communism in any measure or reform of an unaccustomed type. Recent proposals, involving the regulation, but not the management of commercial or industrial activities have been criticised in the United States as being socialistic. In England some of them at any rate would be regarded as embodying principles long accepted and adapted to meet the new conditions of a later day.

Viewed in this perspective, the actual achievements of the present American Administration although not startling, are substantial. The degree of recovery compares favourably with that which has taken place in the principal European countries. This is shown in the attached chart.

For further progress in the United States, however, two requirements are essential. Federal credit is the sheet anchor and it must not be allowed to drag. Confidence is the prerequisite of further recovery and it must be allowed to grow. If these two requirements are observed, there is no reason why the Budget of 1936–1937 should not be balanced; the reforms desired by the Administration be accomplished, and recovery proceed apace.

If the truth be told, however, it is not the actual

Industrial Production. U.S.A. compared with other Countries.



Note: No quarterly indices exist for Belgium and Japan before 1931.
Source: League of Nations monthly bulletins.

value of the material results achieved which creates supporters or opponents of the Government. Critics, if they speak frankly, admit that under a Government of the old type, recovery from the depths of the depression of March 1933 might have been no faster, if as fast. Supporters of the Government will agree that while the degree of recovery attained is substantial, it is not as yet very surprising or remarkable. So far as men and women in the United States are free of party considerations—and party ties in that country are looser to-day than for many years past—what attracts or repels them is the 'something new' in the Administration; not what it has achieved, but what it may portend. Differing and sometimes discordant influences are still at work, as they were when the N.I.R.A. was conceived. The nature of the 'something new' has not yet taken shape. When this has been evolved and the experiments which are now taking place develop into a consistent and continuing policy, then a final judgment of the Recovery Administration will be possible.

CHAPTER XI

THE NEW AMERICA

THE conception of a new America embraces many problems, diverse both in time and space. The America of to-morrow is concerned before all things with its Recovery Programme—with the chances of success and the right specifics to apply. But beyond the America of to-morrow lies the America of future years. Will it be greatly changed from the country we have known and, if so, what will the changes be? Nor is that all. The issues which will find a place in any conception of a new America reach out beyond the confines of the Union itself to its relations with the outside world. Will there be any pressing questions of international importance in the near future in which America must perforce play a part? And in the years to follow, will she feel the need to take a greater share than hitherto in international affairs or will she still be able to maintain her traditional attitude—interested, but half aloof?

1. AMERICA OF TO-MORROW

Is America going to recover? Natural healing processes are at work. They are so strong that recovery is bound to go forward. How fast and how far it will go will depend on the policy of the United States Government, both at home and in its foreign relations.

In the sphere of domestic policy, the rate of progress will be prejudiced by any further conflict of the kind of which so much has been heard—between reform and recovery. The introduction of further reforms, similar to the Securities Act and the Securities Exchange Act, would certainly retard recovery. They might be worth the price, and that would be for the Government to determine. Unless, however, the reasons for introducing such measures of reform are clear and compelling, it is better that they should be postponed until the tide of trade flows so strongly that confidence will not be impaired. On the other hand, some reforms have no appreciable effect on recovery. For instance, the introduction of a measure of health insurance, is probably as opportune now as at any time. It is not an opportune moment for the establishment of a system of unemployment insurance, but the reasons for this have no connection with the Recovery Programme. Now that the frontier of agricultural development has been reached, the introduction of a scheme of unemployment insurance may be desirable. But if it is launched during a time of depression, the fund will get into deficiency and a heavy subsidy will be required in addition to the regular Federal contribution. Moreover, in those circumstances, it will be particularly difficult to test the genuineness of applications for benefit. The proper time to start such a scheme is when trade is well on the upgrade; when unemployment has been satisfactorily reduced, and is falling still further. Its administrators can then acquire experience and its funds accumulate, before times of stress come upon it.

The reason for insistence upon the need for confidence is clear. Confidence is the breath of life to the

heavy industries, and a revival of the heavy industries, which produce durable goods, is the key to trade recovery. If the primary aim of the Government is recovery, different policies and proposals, whether measures of inflation, schemes of public works, or housing programmes, should be judged primarily by the effect they would have upon the heavy industries, and their value should be rated accordingly.

Inflationary proposals of various kinds are advanced on the ground that they will cheapen rates of interest and promote investment. It is not more money, however, which is needed, but the confidence which causes money to circulate. Excess reserves of the banks already exceed $2000 million and further inflation will do no good and may do great harm.

A continuance or an extension of the public works programme is advocated both on the ground of 'priming the pump' in the durable goods industries and of giving employment. It is difficult to believe that it can be justified on these grounds. It does 'prime the pump'. It fills the carburettor of the automobile. But what is the use of this if, when the engine is started, there is no flow of petrol to supply the carburettor when the priming is exhausted? This is just what happens in the United States in the present state of the public mind. The stimulus applied by the execution of public works produces an effect only so long as the expenditure of public money continues, and no longer. Different considerations apply to a programme of public works when considered as a means of giving employment. In any case it is an expensive method, judged from the taxpayers' point of view, unless the object be some work of undoubted public utility which should be undertaken in any case.

The housing programme in the United States has already been fully discussed. It is free from the weaknesses which lay the ordinary public works schemes open to criticism, and it should have admirable results if it can be brought into early and active operation. But however rapidly housing may be pushed forward, it cannot fill the whole bill. Before the depression, the annual sum spent on residential construction was about 10 per cent of the total expenditure on durable goods. Revival is needed in the industries which should provide the other 90 per cent. Improvement is slow in the demand for most kinds of machinery, and in the locomotive industry the position is still pitiable. Two conditions are needed if a substantial improvement is to take place in the durable goods industries—a low rate of interest and the belief that investment in these industries will be profitable. The first is present, but the confidence which is necessary for the second is still lacking, and its absence delays the demand for replacements and prevents the initiation of new enterprises.

Is America going to recover? The answer has already been given. America is bound to recover. But before the last word is said upon the subject of recovery, emphasis should again be laid upon the need for one particular measure before recovery comes—a measure not of recovery, or of reform, but of precaution. The possibilities of future inflation are so great that methods of control should be devised and applied before the situation gets out of hand. Otherwise the dangers of prosperity may prove greater than the difficulties of adversity.

2. AMERICA OF THE FUTURE

What of the America of the future? The measures just discussed affect the America of to-morrow. They will hasten or delay recovery according as the policy adopted has been rightly or wrongly conceived, but they will not bring about fundamental changes in the America of the years which follow. The aims of the President, however, are not limited to dealing with the circumstances of to-day and to-morrow. His policy is one of reform, at least as much as of recovery. Some of the most important Acts passed by the 73rd Congress are measures of reform, which were enacted at his instance. Their intrinsic importance is considerable and their effect will continue after recovery is complete and when recovery expedients are a thing of the past. The indication which these measures afford of the trend of public opinion is almost as significant as the measures themselves. It is strengthened by direct evidence, such as the postal ballot or 'straw vote' on the President's policy, organised recently by the *Literary Digest.* Local reactions to the President's radio addresses also show a preponderance of public opinion in his support. This indicates a definite change of mind in the United States on some fundamental matters which affect the structure of society. It is not surprising that this should be so. It would, indeed, be surprising if it were otherwise, in a country which had just grown to its full limits, and then passed through so profound an experience as the change from the hectic period before the collapse of 1929 to the distress of the years which followed. A chapter in the country's history is coming to a close, and while some are eager to turn the page, others would gladly delay its turning.

One fundamental change is foreshadowed in the statement of a banker in New York that "the old financial supremacy is gone for good". If true, this means that the third American dynasty has fallen. The first was that of the farming element, which continued throughout the early decades of the Republic. The second, which lasted well into the twentieth century, was the era of the great manufacturers and railroad kings. The post-war dynasty was that of finance. It is early as yet to say how far the prophecy will be fulfilled, but it certainly is more likely to be justified than most predictions of the kind.

It is easier to recognise the passing of an existing regime than it is to foresee future developments, and opinions as to these are bound to be more speculative. One leading business man has said that "there will be no more rich men". Changes which come about by evolution, however, are seldom rapid, even if they are ultimately far-reaching. It may well be that fortunes will no longer be made in the United States on the gigantic scale of recent years, but men will become rich judged by ordinary standards. It is doubtful if the absence of colossal fortunes will be a calamity. Great wealth is like a modern liner. Beyond a moderate limit of enjoyment, each additional pleasure like each knot of extra speed, is only attained at a disproportionate cost. Again, limitations upon the accumulation of wealth may lead to a change in the standard of values. Ambition to excel may find an outlet other than in the world of wealth—in science, perhaps, or in political life and public work. If so, that most unlovely feature in American life, the prevalence of graft, may encounter a growing public opinion which will tolerate it no longer.

Amid so many prophecies which are little more than interesting speculations, there is one forecast which can be made with a greater degree of confidence. The coming years in the United States are likely to witness at least one marked development in the world of industry. In England the history of trade union development and of industrial relations is long and chequered with many troubles. Until a short time ago it seemed that the Fates might spin a different fortune for the United States. Difficulties in the way of trade union organisation and the paucity of good leadership were among the reasons for this belief. But there was—or seemed to be—a more potent reason. A newer and more excellent way had been discovered, which might prove a shorter and safer passage to the haven of industrial peace. The policy of high wages for all and opportunities of promotion for the most capable would make trade unions superfluous. But it now seems clear that American industry will have to navigate the same difficult passage which British industry was the first to enter. The late-comer will, at any rate, possess one advantage. Many of the currents and reefs have been charted and it will be possible to guard against some of the dangers which others have encountered and to profit by some of the mistakes which they have made.

Shortly before the adjournment of the recent Congress, the President announced his intention to introduce schemes of social insurance. With the growth of labour organisation the demand for labour legislation is likely to increase. Such a demand may have interesting reactions in the constitutional sphere. Miss Perkins, the Secretary of Labour, pointed out at the Labour Conference in New York in February 1934 that re-

sponsibility for conditions of labour rests at least as much with State legislatures and governments as with the Federal Administration. At first sight, it seems not only natural but right that this should be so, since labour regulations must necessarily be adapted to suit widely varying conditions of race and climate in the different great regions of the country. Some unity of principle in labour legislation, however, is necessary, in a country which, however vast, is still one economic entity. It is also notorious that standards of administration vary greatly between one State and another. If the influence of labour organisation becomes more powerful, a demand may well arise for laxer administrations to be brought nearer to the level of the more efficient. If State rights are judged sacrosanct and beyond the range of constitutional amendment, it may yet be that ingenuity will devise means by which Federal legislation may deal with labour questions and yet keep within the four corners of the Constitution.

Changes in political organisation in the United States are among the developments which may occur in the years to come. The possibility of the re-alignment of political parties is already a matter of speculation. The present division between Democrats and Republicans is very largely a mechanism for deciding the election of the President. The real issues on which opinions are divided cut across party affiliations. Each of the great divisions of which the country is composed has its regional interests. Again, as between Catholic and Protestant, white man and negro, industrialist and farmer, a natural division is to be found in religion, race or avocation. Only tradition makes the Western farmer a Republican who votes for tariffs. Only the surrounding negro population makes the conservative

southerner in Georgia and the Carolinas vote the Democratic ticket. Will all this be changed in the days to come? There are already Democrats of pronounced conservative tendencies and Republicans, like Senator La Follette, with advanced social ideas. It has been suggested in more than one quarter that the President is not likely to obtain support from the great financial interests or from the employers of labour, and that he may try to consolidate behind him the great mass of the less well-to-do people—the farmers and the workmen in the towns. A combination of this kind may be sufficient to break up the two great traditional parties. If, however, as James Madison has said, political differences tend to reflect a conflict of real interests, such a combination will surely lead to a position of very unstable equilibrium. Fundamentally, the real interests of the industrial worker and the farmer are not similar, but conflicting. The industrialist would naturally vote for a high tariff. The interests of the farmer, as Mr. Wallace, the Secretary of Agriculture, has more than once pointed out with great force, are naturally bound up with low tariffs or free trade. Moreover, the tendency of the agriculturist the world over is conservative, while industrial centres are the principal recruiting ground for radicals or socialists. Race and religion would still remain cross-sections of the political structure; but racial or religious differences would, if anything, cut across party divisions to a less degree than at present. If a re-alignment of political parties, determined by a real difference of interests, does in fact come to pass, the colouring of the political map of the United States will be surprisingly different from what it has been at any time since the Civil War.

3. AMERICA AND FOREIGN RELATIONS

The course of the world depression has been marked by an unprecedented series of set-backs to recovery. It is as though a malevolent spirit nipped the first shoots of recovery whenever they showed signs of growth. One of the most serious of these set-backs was the failure of the London Conference of 1933, followed as it was by the vagaries of the dollar. Much water has flowed under the mill since then. The situation in the United States has changed greatly. The dollar has been stabilised—with a power of variation between limits, it is true. Nevertheless, it has been stabilised. An unprecedented step has also been taken in conferring upon the President the power to make commercial treaties. Resistance to tariff reductions may always be anticipated. But the effect on American products of high foreign tariffs and of quota restrictions has become more widely realised, and the ultra-nationalism of a year ago is now less vocal. It is possible, therefore, so far as America is concerned, that negotiations which were fruitless a year ago might have better success to-day.

Considerable difficulties stand in the way of re-opening such negotiations. The manner in which the last Conference was broken up is not an incentive to hold further meetings of a similar kind. The under-valuation of the dollar presents another difficulty. If, however, the United States is now ready to co-operate to obtain an international agreement on stabilisation, advantage should be taken of her willingness to do so. The panoply and the fanfare of the London Conference are not required. Indeed, they are more of a hindrance than a help. What is wanted,

in the first instance, is business negotiation between representatives of the five or six leading countries. The need for an international agreement on currency stabilisation is greater than ever. All the reasons for holding the London Conference of 1933 are as cogent now as they were then. To these reasons another has been added. Countries which are still on the gold standard are making every endeavour to maintain it but their hold has become precarious. Their abandonment of it may lead to a competition in currency depreciation, in the face of which the manipulators of 'managed currencies' will be powerless—a competition which will still further postpone recovery from the depression.

Other steps which have been taken recently in the United States may eventually lead to a participation of a more permanent kind in international affairs. The United States have formally joined the International Labour Organisation, and the action aroused no opposition in America. Again, their intention to take an increasing part in foreign trade is clearly indicated by the provision of special facilities for financing it. Where will these steps ultimately lead? There is no doubt as to the implications which are logically involved. Economics and politics are inextricably bound up together. Wherever disquiet and political unrest exist, they are aggravated by the hardships and miseries which are due to economic causes. But for mistakes that accentuated the world depression—mistakes in which both Great Britain and the United States had their share—Brüning might not have been superseded by Hitler and political tension would be much less in Europe to-day. Another implication is equally important. In the event

of war between France and Germany, Great Britain will inevitably be brought in. If the war lasted any length of time, it is almost as certain that the United States would be brought in also. It is difficult for Englishmen to realise that the frontier of England is no longer the white cliffs of Dover but the Rhine. Only with reluctance are they driven to face the fact that there is but one real guarantee of peace—that Great Britain must be prepared to throw her force into the scale against the aggressor; to let it be known clearly that she will do so; and to make that force sufficiently formidable that it cannot be disregarded by any would-be aggressor with impunity. For the United States it is much more difficult to visualise such a situation, and harder still to accept any such conclusion.

There is a striking analogy between the position of the United States to-day and that of Great Britain half a century ago. In those days Britain was on the confines of Europe, but not part of the European system. She prided herself on her policy of 'splendid isolation'. As the years passed and modern inventions linked the world up more closely, she was forced to realise that the possibility of isolation no longer existed. The present position of the United States is very similar. The Atlantic will soon be no greater guarantee of isolation than the English Channel is to-day. Many reasons have combined to give force to the traditional opposition of America to 'entangling alliances', and her actions hitherto have been in accordance with this tradition. In most international conferences of importance since the war, except of course those dealing with naval limitation, her representatives have been interested spectators. They have taken part in conversations, but for the most part they have held

themselves free to withdraw and there has been no question of the United States entering into any commitment.

How soon will she be forced to abandon this position? As the world becomes linked up more closely by modern inventions, the possibility of isolating war or of any nation standing aloof is diminishing. Before many years have passed, the United States will be as preoccupied as Great Britain is to-day with the problem of preventing wars between other countries. If wars are to be avoided in the future, it is clear that organised sanctions which will restrain a would-be aggressor are essential. There is no virtue in a pact which outlaws war and yet puts no sanction behind the outlawry, and the world is still groping for the best form which such sanctions can take and yet be compatible with ultimate disarmament. In certain contingencies the force which Great Britain can throw into the scale may avail to maintain peace when it could not otherwise be preserved. The weight which the United States can throw into the scale of peace is overwhelming. When will she come to realise this and to play her part?

EPILOGUE

THROUGHOUT the world the old order is changing. The great experiment in the United States is one of the manifestations of a period of transition. As an example of empiricism in the dynamics of change it is noteworthy; it is still more significant as evidence of the new currents of thought which alone make changes practicable, and indeed inevitable.

But how intriguing is the experiment in itself. It challenges all the cardinal principles of the existing economic system—competition, profit-making, the gold standard—but it does not make a final break with any of them save one, the principle of leaving the trade cycle to work its own cure. Reforms are carried through by frontal attacks on powerful interests that are strongly entrenched. Experiments are made on a great scale in industry, in agriculture, in currency, in finance and in public works—experiments which are only possible in a country which is still young, able to repair the effect upon itself of possible mistakes, and careless of the result of such experiments upon neighbour nations. At the same time, they are experiments of value to older countries during a period of transition, when men are groping for truth and eager to welcome it, whether it is born of theory or discovered by practice.

This is not the place for a general discussion of the relative merits of capitalism or socialism as the economic ideal, or of possible methods of international co-operation in economic affairs—a vital ele-

ment in either case. But it is very pertinent to consider the lessons that can be learned in this connection from the great experiment in the United States. Nothing has happened there to show that any system which puts production into a strait-jacket is likely to prove a success. Quotas there, as here, may be necessary as a temporary makeshift, but the objections to them as a permanent system are obvious. Still less has anything which has happened there strengthened the case for socialism. This does not mean, however, that the world should rest content with things as they are, or let trade cycles take their course. Experience in the United States during the last four years indicates that, by careful investigation, methods of control may be found within the capitalist system which can prevent the extravagances of the boom and the depths of the slump which have characterised the great depression. Such a remedy may seem unheroic as compared with a great change of system. But if to wash in Jordan will heal our ills, why strain for Abana and Pharpar, the rivers of Damascus?

Investigations of this nature are being carried out in the United States. They need to be undertaken in other countries also. They are not more inherently difficult than other enquiries which are being made under Government auspices. But are they not more necessary than any? The discovery of the means by which these great booms and depressions may be prevented, together with their attendant evils, may prove decisive in determining the future form of government and the structure of society as well as in removing some of the causes which breed unrest, and thereby increase the possibility of war.

The old order is changing. The world will not rest

content with the prospect of a future which will bring a repetition of the hardships of the last few years. If the capitalist system is jettisoned, it will not be because of the merits of any other system which may replace it. It will be because the mass of mankind will be ready to try a new system, proved or unproved, which holds out a hope of escape from the uncertainties and the hardships which they have been led to believe are inseparable from the old. "*Dum vitant stulti vitia in contraria currunt.*"

If, however, great trade depressions can be prevented and capitalism pruned of its excesses, stability in industry may be combined with freedom of individual enterprise, and improvements in the standard of living made more secure and enduring.

Capitalism is indeed on its trial. So, too, is the freedom of individual initiative. If this is destroyed, the chief responsibility for its destruction will lie with those who professed to believe in it, but were too remiss to try and remedy the admitted shortcomings of the existing economic system.

The old order must change. What is the new order to be?

APPENDIX A

PRINCIPAL LAWS PASSED BY THE 73RD CONGRESS[1]

Short Synopsis of Contents

ACT AUTHORISING R.F.C. AID TO INSURANCE COMPANIES. June 10, 1933.

Authorises the Reconstruction Finance Corporation to subscribe for preferred stock in Insurance Companies.

ACT RELATING TO DIRECT LOANS FOR INDUSTRIAL PURPOSES BY FEDERAL RESERVE BANKS AND FOR OTHER PURPOSES. June 19, 1934.

Authorises direct loans up to $580 million to smaller industries by the Reconstruction Finance Corporation and Federal Reserve Banks.

ACT TO AMEND THE TARIFF ACT OF 1930. June 12, 1934.

Confers on the President for three years the power to make commercial agreements with foreign countries.

AGRICULTURAL ADJUSTMENT ACT and EMERGENCY FARM MORTGAGE ACT. May 12, 1933.

Institutes the policy of restricting agricultural production and the system of processing taxes and benefit payments to farmers.

The second part of the Act amends the Federal Farm Loan Act and increases the help given to farmers in dealing with mortgages.

The third part confers upon the President extensive powers to inflate the currency.

[1] The date following the title of the Act refers in each case to the date on which the Act was approved by the President.

Banking Act of 1933. June 16, 1933.

Provides for the separation of Security affiliates from Commercial banks; establishes a system of insurance of Deposits; prohibits interest on demand deposits and gives power to the Federal Reserve Board to regulate the interest on time deposits and makes other amendments to the Federal Reserve Act.

Bankhead Cotton Act. 1933.

(See Cotton Control Act.)

Cotton Control Act—1933. April 21, 1934.

Authorises the Secretary of Agriculture to allocate quotas for cotton growing and to impose prohibitive taxes on cotton grown by any person in excess of this quota.

Economy Act. March 20, 1933.

Effects economies in salaries of officials and ex-Service men's pensions—the so-called 'Veterans' Bonus'. (See also Independent Offices Act.)

Emergency Banking Act. March 9, 1933.

Deals with the immediate problems raised by the closing of the banks on March 4, 1933.

Emergency Farm Mortgage Act. May 12, 1933.

See 'Agricultural Adjustment Act', of which this Act forms the second part.

Emergency Railroad Transportation Act. June 16, 1933.

Appoints a Federal Co-ordinator of Railways for the purpose of eliminating waste and enforcing economies.

Farm Credit Act of 1933. June 16, 1933.

Authorises the creation of Production Credit Corporations and Associations; of a Central Bank and twelve Banks for Co-operatives, and makes amendments to the Agricultural Marketing Act and the Federal Farm Loan Act.

FEDERAL EMERGENCY RELIEF ACT. May 12, 1933.

Sets up the Federal Emergency Relief Administration. Before this Act was passed there was no Federal Agency for dealing with relief.

THE GOLD RESERVE ACT. January 30, 1934.

Transfers to the Government all the gold reserves of the Federal Reserve Banks, in return for gold certificates; confers on the President the power to stabilise the dollar at not less than 50 per cent nor more than 60 per cent of its existing gold content and creates a Stabilisation Fund of $2000 million.

HOME OWNERS LOAN ACT of 1933. June 13, 1933.

Creates the Home Owners Loan Corporation and authorises the establishment of Federal Savings and Loan Associations.

INDEPENDENT OFFICERS APPROPRIATION ACT. June 16, 1933.

Modifies some of the economies in the 'Veterans' Bonus'.

LOANS TO INDUSTRIES ACT.

See 'An Act relating to Direct Loans for Industrial Purposes by Federal Reserve Banks and for Other Purposes'.

NATIONAL EMPLOYMENT SERVICE ACT. June 6, 1933.

Provides for the establishment of a national employment system.

NATIONAL HOUSING ACT. June 27, 1934.

Establishes a Home Credit Insurance Corporation for the purpose of insuring mortgages on medium sized houses, and loans for the improvement of such houses. It also authorises the establishment of mortgage corporations.

NATIONAL INDUSTRIAL RECOVERY ACT. June 16, 1933.

Part I establishes Codes of fair competition for industries.

Part II creates a Federal Emergency Administration of Public Works and authorises an appropriation of $3300 million for Public Works. New taxes are also imposed.

Reciprocal Tariff Act.

See 'Act to amend the Tariff Act of 1930'.

Securities Act of 1933. May 27, 1933.

Imposes new and stringent regulations on the flotation and sale of securities; gives to buyers of securities rights of action against persons issuing or selling securities in violation of the regulation. Violation of the Act is also made punishable with fines or imprisonment or both.

Securities Exchange Act of 1934. June 6, 1934.

Part I provides for the regulation of all Security Exchanges by a new Securities and Exchange Commission and imposes a number of new regulations on the Security Exchanges.

Part II amends the Securities Act of 1933.

Silver Purchase Act of 1934. June 19, 1934.

Enacts that one-fourth of the monetary stocks of the United States shall be in silver and directs the Secretary of the Treasury to issue silver certificates.

Tennessee Valley Authority Act. May 18, 1933.

Sets up the authority for completing the dam at Muscle Shoals and for establishing the electric power station served by the dam.

Unemployment Relief Act. March 31, 1933.

Created the Civilian Conservation Corps. (C. III.)

APPENDIX B

PRESIDENT'S RE-EMPLOYMENT AGREEMENT

(Authorised by Section 4 (a) National Industrial Recovery Act)

DURING the period of the President's emergency re-employment drive, that is to say, from August 1 to December 31, 1933, or to any earlier date of approval of a code of fair competition to which he is subject, the undersigned hereby agrees with the President as follows:

(1) After August 31, 1933, not to employ any person under 16 years of age, except that persons between 14 and 16 may be employed (but not in manufacturing or mechanical industries) for not to exceed 3 hours per day and those hours between 7 A.M. and 7 P.M. in such work as will not interfere with hours of day school.

(2) Not to work any accounting, clerical, banking, office, service, or sales employees (except outside salesmen) in any store, office, department, establishment, or public utility, or on any automotive or horse-drawn passenger, express, delivery, or freight service, or in any other place or manner, for more than 40 hours in any 1 week and not to reduce the hours of any store or service operation to below 52 hours in any 1 week, unless such hours were less than 52 hours per week before July 1, 1933, and in the latter case not to reduce such hours at all.

(3) Not to employ any factory or mechanical worker or artisan more than a maximum week of 35 hours until December 31, 1933, but with the right to work a maximum week of 40 hours for any 6 weeks within this period; and not to employ any worker more than 8 hours in any 1 day.

(4) The maximum hours fixed in the foregoing paragraphs (2) and (3) shall not apply to employees in establishments employing not more than two persons in towns of less than 2500

population which towns are not part of a larger trade area; nor to registered pharmacists or other professional persons employed in their profession; nor to employees in a managerial or executive capacity, who now receive more than $35 per week; nor to employees on emergency maintenance and repair work; nor to very special cases where restrictions of hours of highly skilled workers on continuous processes would unavoidably reduce production but, in any such special case, at least time and one third shall be paid for hours worked in excess of the maximum. Population for the purposes of this agreement shall be determined by reference to the 1930 federal census.

(5) Not to pay any of the classes of employees mentioned in paragraph (2) less than $15 per week in any city of over 500,000 population, or in the immediate trade area of such city; nor less than $14.50 per week in any city of between 250,000 and 500,000 population, or in the immediate trade area of such city; nor less than $14 per week in any city of between 2500 and 250,000 population, or in the immediate trade area of such city; and in towns of less than 2500 population to increase all wages by not less than 20 per cent, provided that this shall not require wages in excess of $12 per week.

(6) Not to pay any employee of the classes mentioned in paragraph (3) less than 40 cents per hour unless the hourly rate for the same class of work on July 15, 1929, was less than 40 cents per hour, in which latter case not to pay less than the hourly rate on July 15, 1929, and in no event less than 30 cents per hour. It is agreed that this paragraph establishes a guaranteed minimum rate of pay regardless of whether the employee is conpensated on the basis of a time rate or on a piece-work performance.

(7) Not to reduce the compensation for employment now in excess of the minimum wages hereby agreed to (notwithstanding that the hours worked in such employment may be hereby reduced) and to increase the pay for such employment by an equitable readjustment of all pay schedules.

(8) Not to use any subterfuge to frustrate the spirit and intent of this agreement which is, among other things, to increase employment by a universal covenant, to remove obstruc-

tions to commerce and to shorten hours and to raise wages for the shorter week to a living basis.

(9) Not to increase the price of any merchandise sold after the date hereof over the price on July 1, 1933, by more than is made necessary by actual increases in production, replacement, or invoice costs of merchandise, or by taxes or other costs resulting from action taken pursuant to the Agricultural Adjustment Act, since July 1, 1933, and, in setting such price increases to give full weight to probable increases in sales volume and to refrain from taking profiteering advantage of the consuming public.

(10) To support and patronize establishments which also have signed this agreement and are listed as members of N.R.A. (National Recovery Administration).

(11) To co-operate to the fullest extent in having a code of fair competition submitted by his industry at the earliest possible date, and in any event before September 1, 1933.

(12) Where, before June 16, 1933, the undersigned had contracted to purchase goods at a fixed price for delivery during the period of this agreement, the undersigned will make an appropriate adjustment of said fixed price to meet any increase in cost caused by the seller having signed this President's Reemployment Agreement or having become bound by any code of fair competition approved by the President.

(13) This agreement shall cease upon approval by the President of a code to which the undersigned is subject; or, if the N.R.A. so elects, upon submission of a code to which the undersigned is subject and substitution of any of its provisions for any of the terms of this agreement.

(14) It is agreed that any person who wishes to do his part in the President's re-employment drive by signing this agreement, but who asserts that some particular provision hereof, because of peculiar circumstances, will create great and unavoidable hardships, may obtain the benefit hereof by signing this agreement and putting it into effect and then, in a petition approved by a representative trade association of his industry, or other representative organisation designated by N.R.A., may apply for a stay of such provision pending a summary investiga-

tion by N.R.A., if he agrees in such application to abide by the decision of such investigation. This agreement is entered into pursuant to Section 4 (a) of the National Industrial Recovery Act and subject to all the terms and conditions required by Sections 7 (a) and 10 (b) of that Act.

APPENDIX C

STATISTICAL TABLES[1]

TABLE I

PRODUCTION AND OTHER BUSINESS INDICES

1. *Production in U.S.A., compared with other countries*
(1928 = 100)

Quarterly Periods	United Kingdom	U.S.A.	Germany	France	Belgium	Japan
1929:						
First Quarter . .	104·5	106·0	95·0	107·9	. .	. .
Second ,, .	106·2	111·4	109·0	109·8	. .	. .
Third ,, .	104·9	110·5	103·2	109·1	. .	. .
Fourth ,, .	107·9	96·7	98·9	112·1	101·1[2]	111·4[2]
1930:						
First ,, .	105·1	94·6	93·4	113·1	. .	. .
Second ,, .	97·7	93·1	88·2	113·1	. .	. .
Third ,, .	94·3	83·2	79·5	109·4	. .	. .
Fourth ,, .	93·8	76·3	74·9	106·3	89·8[2]	105·6[2]
1931:						
First ,, .	90·0	76·6	79·1	104·4	. .	. .
Second ,, .	87·1	78·7	74·8	101·3	. .	. .
Third ,, .	84·7	71·5	68·7	95·3	78·9	104·1
Fourth ,, .	92·0	66·1	62·2	90·0	75·1	102·3
1932:						
First ,, .	90·0	62·5	61·9	79·5	69·4	101·0
Second ,, .	89·4	54·7	61·3	74·0	65·3	104·8
Third ,, .	82·7	55·3	59·6	73·2	55·3	107·2
Fourth ,, .	90·0	59·5	61·8	76·1	71·7	118·6
1933:						
First ,, .	89·9	56·5	64·1	80·8	69·1	120·9
Second ,, .	91·7	70·9	67·6	85·8	70·1	125·6
Third ,, .	91·8	82·6	70·7	87·4	65·8	129·0
Fourth ,, .	99·5	67·3	73·4	84·2	69·9	138·1
1934:						
First ,, .	103·3	73·5	81·9	82·7	69·6	132·9

SOURCE.—League of Nations Monthly Bulletins.

[1] Except where otherwise stated, all statistics apply to the United States only.

[2] Averages for the year. No quarterly indices for Belgium or Japan exist before 1931.

TABLE I (*continued*)

PRODUCTION AND OTHER BUSINESS INDICES

2. *Industrial Production*

(1923–1925 = 100)

Year or Month	Total (unadjusted)	Manu-facturing (unadjusted)	Mining (unadjusted)	Steel Ingots percentage of Capacity
1928 Average	111	112	106	85
1929 ,,	119	119	115	89
1930 ,,	96	95	99	63
1931 ,,	81	80	84	38
1932 ,,	64	63	73	19
1933:				
January	64	63	71	26
February	64	63	76	27
March	60	58	74	24
April	67	68	65	22
May	80	80	76	20
June	91	93	82	16
July	96	97	89	15
August	90	89	94	14
September	85	84	93	17
October	78	77	88	19
November	72	76	84	18
December	69	67	80	15
1934:				
January	77	75	75	34
February	83	82	82	34
March	87	86	91	43
April	88	89	81	48
May	89	89	87	54
June	85	83	88	58

SOURCES.—The Federal Reserve Board, except for Steel Ingots, which are taken from the Survey of Current Business (U.S. Department of Commerce).

TABLE I (*continued*)

PRODUCTION AND OTHER BUSINESS INDICES

3. *Durable Products expressed as a Percentage of Non-durable Products*

Quarterly Periods	Durable as % of Non-durable	Quarterly Periods	Durable as % of Non-durable
1919: First Quarter .	98·0	1927: First Quarter .	82·3
Second ,, .	78·9	Second ,, .	88·0
Third ,, .	84·7	Third ,, .	76·8
Fourth ,, .	75·3	Fourth ,, .	74·0
1920: First ,, .	88·9	1928: First ,, .	81·3
Second ,, .	87·9	Second ,, .	85·6
Third ,, .	103·0	Third ,, .	89·4
Fourth ,, .	104·8	Fourth ,, .	88·9
1921: First ,, .	72·9	1929: First ,, .	89·2
Second ,, .	55·2	Second ,, .	93·5
Third ,, .	50·9	Third ,, .	94·3
Fourth ,, .	57·2	Fourth ,, .	80·9
1922: First ,, .	62·6	1930: First ,, .	82·9
Second ,, .	79·5	Second ,, .	83·2
Third ,, .	74·8	Third ,, .	72·2
Fourth ,, .	79·6	Fourth ,, .	61·2
1923: First ,, .	83·2	1931: First ,, .	61·4
Second ,, .	89·4	Second ,, .	56·6
Third ,, .	94·3	Third ,, .	43·8
Fourth ,, .	89·4	Fourth ,, .	40·8
1924: First ,, .	90·6	1932: First ,, .	36·5
Second ,, .	79·1	Second ,, .	36·1
Third ,, .	76·5	Third ,, .	27·1
Fourth ,, .	80·5	Fourth ,, .	30·9
1925: First ,, .	87·1	1933: First ,, .	31·9
Second ,, .	85·3	Second ,, .	40·0
Third ,, .	86·2	Third ,, .	55·3
Fourth ,, .	93·0	Fourth ,, .	46·2
1926: First ,, .	89·5	1934: First ,, .	51·9
Second ,, .	90·9	Second ,, .	62·0
Third ,, .	91·1		
Fourth ,, .	83·7		

TABLE I (*continued*)

PRODUCTION AND OTHER BUSINESS INDICES

4. *The National Income and Gross Farm Income*

(Amounts in millions of dollars)

Year	Estimate of National Income	Gross Farm Income	Farm Income as percentage of National Income
1919	65,949	16,935	18·5
1920	73,999	13,566	14·9
1921	63,371	8,927	11·0
1922	65,925	9,944	11·1
1923	74,337	11,041	10·8
1924	77,135	11,337	10·8
1925	81,931	11,968	11·1
1926	84,238	11,480	9·6
1927	87,276	11,616	9·5
1928	88,283	11,741	9·3
1929	91,405	11,941	7·6
1930	81,295	9,454	7·6
1931	67,000	6,968	7·1
1932	52,500	5,331	7·0
1933	..	6,256	? 8·0

SOURCE.—*Economic Bases of the Agricultural Adjustment Act.* The percentages in the last column are based on estimates of farm income included in the estimate in column 2 of national income, not on column 3.

TABLE I (*continued*)

PRODUCTION AND OTHER BUSINESS INDICES

5. *New Domestic Capital Issues*

(Amounts in millions of dollars)

Year or Month	Total	State and Municipal	Corporate	
			Bonds and Notes	Stocks
1925	5215	1352	2452	1153
1926	5189	1344	2667	1087
1927	6219	1475	3183	1474
1928	6789	1379	2385	2961
1929	9420	1418	2078	5924
1930	6004	1434	2980	1503
1931	2860	1235	1240	311
1932	1157	755	305	20
1933:				
January	65	33	19	3
February	20	17	1	0
March	16	13	0	3
April	25	18	16	1
May	44	40	1	3
June	110	98	3	9
July	117	28	0	53
August	46	32	0	14
September	64	37	0	9
October	59	56	0	3
November	88	82	0	6
December	57	41	0	16
1934:				
January	48	37	0	6
February	79	59	12	1
March	97	81	9	5
April	143	100	24	5
May	103	61	26	3
June	123	102	0	9

SOURCE.—The Federal Reserve Bulletin.

TABLE I (*continued*)

PRODUCTION AND OTHER BUSINESS INDICES

6. *Business Indices*
(1923–1925 = 100)

Year or Month	Construction Contracts (unadjusted)	Car Loadings (unadjusted)	Electric Power Production	Departmental Store sales (unadjusted)
1928 average	135	100·6	101	108
1929 ,,	117	103·1	102·4	111
1930 ,,	92	89·7	92·7	102
1931 ,,	63	72·8	82	92
1932 ,,	27·9	..	64	69
1933:				
January	18	56	82·3	49
February	16	54	82·6	49
March	14	50	80	50
April	16	53	84	68
May	19	56	87·4	67
June	21	60	93	64
July	24	65	96·9	49
August	25	61	94·6	59
September	30	60	92·7	73
October	35	58	89·4	77
November	42	59	88	75
December	46	63	88·3	121
1934:				
January	40	64	89·5	57
February	38	64	93·1	59
March	33	66	93·6	73
April	36	62	96·1	73
May	32	63	96·7	77
June	36	64	98	70

SOURCES.—Survey of Current Business (U.S. Department of Commerce), and Federal Reserve Board Bulletin.

TABLE II

INDICES OF WHOLESALE PRICES

(1926 = 100)

Year or Month	Farm Products	Foods	All Commodities other than Farm Products and Foods	All Commodities
1928 average .	105·9	101·0	92·9	96·7
1929 ,, .	104·9	99·9	91·6	95·3
1930 ,, .	88·3	90·5	85·2	86·4
1931 ,, .	64·8	74·6	75·0	73·0
1932 ,, .	48·2	61·0	70·2	64·8
1933:				
January .	42·6	55·8	67·3	61·0
February .	40·9	53·7	66·0	59·8
March . .	42·8	54·6	65·8	60·2
April .	44·5	56·1	65·3	60·4
May . .	50·2	59·4	66·5	62·7
June . .	53·2	61·2	68·9	65·0
July . .	60·1	65·5	72·2	68·9
August .	57·6	64·8	74·1	69·5
September .	57·0	64·9	76·1	70·8
October .	55·7	64·2	77·2	71·2
November .	56·6	64·3	77·2	71·1
December .	55·5	62·5	77·5	70·8
1934:				
January .	58·7	64·3	78·3	72·2
February .	61·3	66·7	78·7	73·6
March . .	61·3	67·3	78·5	73·7
April . .	59·6	66·2	78·6	72·3
May . .	59·6	67·1	78·9	73·7
June . .	63·1	69·6	78·8	74·6

SOURCE.—The Bureau of Labour Statistics of the Department of Labour.

TABLE III

1. AGRICULTURAL PRICES AND RATIOS
(1909–1914 = 100)

Year or Month	Cotton, cents per lb	Wheat, cents per bushel	Corn, cents per bushel	Hogs, dollars per 100 lb.	All Agricultural Products
1919 average	35·6	213·1	134·3	..	209
1920 ,,	13·9	143·3	65·6	..	205
1921 ,,	16·2	90·3	41·3	..	116
1922 ,,	23·8	98·9	65·0	..	124
1923 ,,	31·0	91·4	71·4	7·41	135
1924 ,,	22·6	130·9	97·8	6·85	134
1925 ,,	18·2	140·5	67·0	10·55	147
1926 ,,	10·9	120·7	63·8	11·55	136
1927 ,,	19·6	111·8	71·8	10·28	131
1928 ,,	18·0	98·1	74·8	8·59	139
1929 ,,	16·8	103·5	79·8	9·28	138
1930 ,,	9·5	67·1	59·4	8·95	117
1931 ,,	5·7	39·1	32·1	6·95	80
1932 ,,	6·2	35·0	19·5	3·78	57
1933:					
January	5·6	32·9	19·1	2·68	51
February	5·5	32·3	19·4	2·94	49
March	6·1	34·5	20·6	3·22	50
April	6·1	44·8	28·2	3·21	53
May	8·2	59·0	38·9	3·88	62
June	8·7	58·7	40·2	3·96	64
July	10·6	86·9	58·4	3·98	76
August	8·8	74·7	48·8	3·79	72
September	8·8	71·1	46·5	3·73	70
October	9·0	63·6	38·8	4·17	70
November	9·6	71·1	40·6	3·70	71
December	9·6	69·3	42·0	2·92	68
1934:					
January	10·3	69·4	43·9	3·06	70
February	11·7	72·0	45·6	3·87	76
March	11·7	70·9	47·1	3·88	76
April	11·6	68·7	47·1	3·49	74
May	11·0	69·5	48·6	3·17	74
June	11·6	78·9	56·0	3·52	77

SOURCE.—*Crops and Markets,* published by the U.S. Department of Agriculture.

TABLE III (*continued*)

2. AGRICULTURAL PRICES AND RATIOS
(1909–1914 = 100)

Year or Month	Prices of Articles purchased by Farmers	Farm Prices received by Farmers	The 'Farmers' ratio'
1919 average	200	209	104
1920 "	194	205	106
1921 "	150	116	77
1922 "	146	124	84
1923 "	149	135	90
1924 "	150	134	89
1925 "	154	147	95
1926 "	153	136	89
1927 "	151	131	87
1928 "	153	139	91
1929 "	152	138	91
1930 "	144	117	81
1931 "	125	80	65
1932 "	107	57	53
1933:			
January	102	51	50
February	101	49	49
March	102	50	50
April	101	63	52
May	102	62	61
June	103	74	62
July	117	76	71
August	112	72	64
September	116	70	60
October	116	70	60
November	116	71	61
December	116	68	59
1934:			
January	117	70	60
February	119	76	64
March	120	76	63
April	120	74	62
May	121	74	61
June	122	75	63

SOURCE.—*Crops and Markets*, published by the U.S. Department of Agriculture.

TABLE IV

STATISTICS OF SOCIAL CONDITIONS

1. *Earnings and Cost of Living*

Year or Month	Hourly Earnings, dollars	Weekly Earnings		Real Weekly Earnings, 1923=100	Cost of Living, 1923=100	Retail Prices of Food, 1923=100
		Dollars	1923=100			
1928 average .	..	27·80	104·5	104·0	100·4	154
1929 „ .	..	28·54	107·3	107·3	100·0	157
1930 „ .	..	25·90	97·4	101·2	96·2	147
1931 „ .	0·564	22·60	84·9	97·9	86·7	121
1932 „ .	0·497	17·10	64·3	82·8	77·7	102
1933:						
January .	0·468	16·21	60·9	82·6	73·7	95
February .	0·464	16·13	60·6	84·0	72·1	91
March .	0·460	14·56	54·7	76·2	71·8	91
April . .	0·460	15·39	57·8	80·8	71·5	90
May . .	0·453	16·71	62·9	87·1	72·1	94
June . .	0·452	18·49	69·5	95·5	72·8	97
July . .	0·455	19·15	72·0	95·7	75·2	105
August .	0·497	19·25	72·3	94·0	76·9	107
September .	0·531	19·46	73·1	93·8	77·9	107
October .	0·540	19 46	73·1	93·7	78·0	107
November .	0·545	18·51	69·6	89·5	77·8	107
December .	0·550	18·58	69·8	90·3	77·3	104
1934:						
January .	0·551	18·89	71·0	91·6	77·5	105
February .	0·558	19·81	74·4	95·0	78·3	108
March .	0·561	20·49	77·0	98·1	78·5	108
April . .	0·579	21·00	78·9	100·6	78·4	107
May . .	0·586	20·79	77·8	105·7	78·6	107
June . .	0·586	20·71	78·1	..	78·8	109

SOURCES.—Survey of Current Business; the National Industrial Conference Board; and the Bureau of Labour Statistics.

TABLE IV (*continued*)

STATISTICS OF SOCIAL CONDITIONS

2. *Factory Conditions and Labour Disputes*

Year or Month	Factory Employment, 1923–5 = 100 (unadjusted)	Factory Pay-rolls, 1923–5 = 100 (unadjusted)	Days lost through Labour Disputes
1928 Monthly average	98·9	102·4	..
1929 ,,	104·8	109·1	831,259
1930 ,,	91·5	88·7	227,531
1931 ,,	77·4	67·5	532,182
1932 ,,	64·1	46·1	538,581
1933:			
January	60·2	39·5	240,912
February	61·1	40·2	109,862
March	58·8	37·1	445,771
April	59·9	38·8	535,039
May	62·6	42·7	603,723
June	66·9	47·2	504,362
July	71·5	50·8	1,404,850
August	76·4	56·8	1,401,532
September	80·0	59·1	3,642,431
October	79·6	59·4	3,067,967
November	76·2	55·5	1,160,565
December	74·4	54·5	338,746
1934:			
January	73·3	54·0	1,926,035
February	77·7	60·6	819,934
March	80·8	64·8	901,933
April	82·3	67·3	2,280,164
May [1]	82·4	67·1	2,343,767
June [1]	81·0	65·0	2,490,269

SOURCE.—Bureau of Labour Statistics. Monthly Averages are given for years before 1933 in order to facilitate comparison.

[1] Preliminary figures, subject to change.

TABLE IV (*continued*)

STATISTICS OF SOCIAL CONDITIONS

3. *Unemployment in the United States*

Month	Number of Unemployed	Month	Number of Unemployed
1930:		1932:	
January	3,216,000	January	10,197,000
February	3,565,000	February	10,486,000
March	3,543,000	March	10,739,000
April	3,188,000	April	10,990,000
May	3,090,000	May	11,470,000
June	3,250,000	June	11,853,000
July	3,714,000	July	12,300,000
August	4,101,000	August	12,344,000
September	4,150,000	September	11,767,000
October	4,639,000	October	11,586,000
November	5,364,000	November	12,008,000
December	5,541,000	December	12,124,000
1931:		1933:	
January	7,160,000	January	12,986,000
February	7,345,000	February	13,185,000
March	7,068,000	March	13,533,000
April	6,739,000	April	12,987,000
May	6,750,000	May	12,591,000
June	6,841,000	June	11,872,000
July	7,198,000	July	11,531,000
August	7,357,000	August	10,759,000
September	7,303,000	September	9,965,000
October	7,778,000	October	9,812,000
November	8,699,000	November	10,443,000
December	8,908,000	December	10,682,000
		1934:	
		January	11,668,000
		February	11,331,000
		March	10,737,000
		April	10,410,000
		May	10,077,000
		June	10,026,000

SOURCE.—Estimates made by the American Federation of Labour of the number of unemployed among the gainfully employed population, which amounted to 45,190 at the time of the census of 1930. A slight correction has been made in the figures since January, 1933.

TABLE IV (*continued*)

STATISTICS OF SOCIAL CONDITIONS

4. *Employment and Relief given by Federal Recovery Agencies*[1]

Month	Public Roads not P.W.A. Federal	Public Works Administration	Civilian Conservation Corps	Civil Works Administration	Emergency Work Programme	Total of Persons Employed	% of Gainfully Employed	Families Receiving Relief	% of all Families
1933:									
January	74,405	..	..	..	..	74,405	0·2	3,850,000	13
February	76,969	..	..	..	..	76,969	0·2	4,140,000	14
March	94,491	..	..	..	..	94,491	0·2	4,560,000	15
April	121,089	..	21,056	..	..	142,145	0·3	4,475,322	15
May	138,934	..	91,244	..	..	230,178	0·5	4,252,443	14
June	151,614	..	242,737	..	..	394,351	0·8	3,789,026	13
July	128,801	..	292,295	..	..	421,096	0·9	3,451,874	12
August	106,907	4,018	276,172	..	..	387,097	0·8	3,351,810	11
September	79,880	30,009	247,758	..	..	357,647	0·7	2,995,857	10
October	56,872	114,096	240,241	..	..	411,209	0·8	3,010,516	10
November	38,112	240,707	287,733	1,471,200	..	2,037,752	4·2	3,365,677	11
December	21,345	251,234	278,517	2,884,893	..	3,435,989	7·0	2,630,996	9
1934:									
January	7,633	243,645	289,184	3,928,130	..	4,468,592	9·1	2,485,761	8
February	2,382	261,091	278,766	3,492,947	..	4,035,186	8·3	2,595,526	9
March	1,451	267,774	212,649	2,284,897	22,934	2,789,705	5·7	3,070,551	10
April	1,932	348,783	266,876	65,512	786,829	1,469,932	3·0	3,864,765	13
May	3,941	462,888	285,556	11,116	866,779	1,630,280	3·3	3,820,000	13
June	4,678	553,789	..	..	..	..	..	..	..

[1] Average monthly number of persons employed, and average monthly number of families on relief.

TABLE V

FINANCE

1. *Federal Budgets and Federal Debt*

(Amounts in millions of dollars)

Financial year ending June 30	All Government Receipts	All Government Expenditure [1]	Surplus + or Deficit −	Gross Federal debt at June 30 [2]
1913	724	725	..	1,193
1914	735	735	..	1,188
1915	698	761	−63	1,191
1916	783	734	+48	1,225
1917	1124	1,978	−853	2,976
1918	3665	12,698	−9,033	12,244
1919	5152	18,523	−13,371	25,482
1920	6695	6,482	+212	24,298
1921	5625	5,538	+87	23,976
1922	4109	3,795	+314	22,964
1923	4007	3,697	+310	22,350
1924	4012	3,507	+505	21,251
1925	3780	3,530	+251	20,516
1926	3963	3,585	+378	19,643
1927	4129	3,494	+636	18,510
1928	4042	3,644	+399	17,604
1929	4033	3,848	+185	16,931
1930	4178	3,994	+184	16,185
1931 [3]	3190	4,093	−903	16,801
1932	2006	5,159	−3,153	19,487
1933	2080	5,148	−3,068	22,539
1934 [4]	3116	6,270	−3,154	27,053

[1] This includes in each case statutory expenditure for repayment of debt.

[2] Changes in the Federal Debt are due to changes in balances in the hands of the Treasury as well as to surpluses or deficits on income and expenditure.

[3] In 1931 and subsequently only the balances of trust and contributed funds are included.

[4] Estimated.

TABLE V (*continued*)

2. *Amount and Percentage Distribution of Long-term Debts by Class and Year*

(From *The Internal Debts of the United States*, edited by Evans Clark)

(Amounts in millions of dollars)

Class	Latest Available Year		1929		Post War Depression Year		Pre-War Year	
	Amount	Per Cent of Total	Amount	Per cent of Total	Amount	Per Cent of Total	Amount	Per Cent of Total
Farm Mortgage Debts	8,500	6·7	9,469 (*a*)	8·0	7,858 (*c*)	10·9	3,320	9·1
Urban Mortgage Debts	27,554 (*e*)	21·7	27,616	23·2	8,968	12·4	5,151	14·1
Railroad Debts	14,264	11·3	14,065	11·8	13,216	18·3	11,186	30·7
Public Utility Debts	11,225 (*f*)	8·9	9,251	7·8	5,249 (*b*)	7·3	3,294 (*b*)	9·0
Industrial Debts	10,450	8·2	10,170	8·5	4,820	6·7	3,738	10·3
Financial Debts	21,919	17·3	19,767	16·6	6,740	9·3	4,040	11·1
Federal Debts (*d*)	14,237	11·2	12,155	10·2	15,965	22·1	0·968	2·1
State and Local Debts	18,685	14·7	16·556	13·9	9,420	13·0	4,751	13·6
Total Reported Debt	126,834		119,049		72,236		36,448	
Total Estimated Debt (*g*)	134,280		126,433		75,158		37,989	

(*a*) 1928. (*b*) Excluding manufactured gas companies. (*c*) 1920.
(*d*) Federal Debt amounted to $26,977 million on June 30, 1934.
(*e*) Total mortgage holdings of all institutions and individuals estimated at $35,000 million at Dec. 31, 1931.
(*f*) Inclusion of funded debt of holding companies brings aggregate debt to $14,000 million at Dec. 31, 1931.
(*g*) Including total reported debt *plus* adjustments to make totals for all years comparable. The adjustments are made to correct omissions in the reported debt figures and are based on known figures and assumed relationships.

TABLE VI

STOCK EXCHANGE STATISTICS

1. *Stock Exchange Prices*

(1926 = 100)

Month	High Grade Bonds	High Grade Preferred Stocks	Total	Common Stocks: Industrial	Common Stocks: Railroad	Common Stocks: Public Utility
1929 June	95·3	127·7	190·7	191·0	144·8	233·0
„ Dec.	96·5	126·4	153·8	146·9	136·3	200·9
1930 June	98·2	126·8	152·8	143·1	124·5	223·5
„ Dec.	97·8	121·9	109·4	101·9	93·5	157·9
1931 June	89·4	119·7	95·1	86·5	74·0	153·0
„ Dec.	81·6	99·1	57·7	54·3	33·0	95·6
1932 June	72·2	83·6	34·0	34·0	14·0	55·0
„ Dec.	82·2	95·4	47·0	45·0	26·0	80·0
1933:						
January	84·1	97·8	49·0	46·0	28·0	82·0
February	82·5	95·7	45·0	43·0	27·0	78·0
March	76·7	93·1	43·0	42·0	26·0	69·0
April	75·4	95·9	48·0	49·0	26·0	64·0
May	82·0	103·3	63·0	65·0	38·0	79·0
June	86·8	109·7	75·0	77·0	44·0	97·0
July	89·6	112·5	80·0	84·0	53·0	98·0
August	89·9	112·9	75·0	79·0	49·0	87·0
September	87·9	112·0	75·0	81·0	47·0	80·0
October	86·5	109·8	70·0	76·0	40·0	75·0
November	82·6	107·5	69·0	77·0	38·0	70·0
December	83·6	107·7	70·0	79·0	40·0	67·0
1934:						
January	88·3	111·2	76·0	84·0	46·0	73·0
February	92·9	116·5	81·0	88·0	50·0	81·0
March	95·1	117·5	77·0	85·0	48·0	76·0
April	97·0	120·2	80·0	88·0	49·0	76·0
May	97·6	121·0	72·0	80·0	43·0	70·0
June	99·0	122·1	74·0	81·0	44·0	72·0

SOURCES.—Federal Reserve Board Report for 1931, and the Federal Reserve Bulletins.

TABLE VI (*continued*)

STOCK EXCHANGE STATISTICS

2. *Stock Prices compared with Commodity Prices*

(1926–1929)

Date	Standard Statistics Common Stock Price Index (1926=100) (1)	Average Monthly Volume of Stock Sales on N.Y. Stock Exchange (millions of shares) (2)	Bureau of Labour Statistics Wholesale Commodity Price Index (1926=100) (3)
1926[1]	100·0	37·42	100·0
1927	118·3	48·08	95·4
1928	149·9	76·71	96·7
1929	190·3	93·75	95·3
1929:			
January	185·2	110·8	95·9
February	186·5	77·97	95·4
March	189·1	105·6	96·1
April	186·6	82·60	95·5
May	187·8	91·28	94·7
June	190·7	69·55	95·2
July	207·3	93·38	96·5
August	218·1	95·70	96·3
September	225·2	100·1	96·1
October	201·7	141·7	95·1
November	151·1	72·46	93·5
December	153·8	83·86	93·3

ORIGINAL SOURCES.—(1) Standard Statistics Co.; (2) *New York Times*; (3) Bureau of Labour Statistics

[1] Annual average for each of the years 1926 to 1929.

TABLE VI (*continued*)

STOCK EXCHANGE STATISTICS

3. *Stock Exchange Speculation*

(1919 = 100)

Year (1)	National Income (2)	Securities sold on N.Y. Exchange (3)	Column 3 as % of Column 2 (4)
1920	112·2	71·6	64
1921	96·1	54·8	57
1922	100·0	83·3	83
1923	112·7	75·8	67
1924	117·0	90·1	77
1925	124·2	144·5	113
1926	127·7	143·5	112
1927	132·3	184·4	139
1928	133·9	294·2	219
1929	138·6	359·4	253
1930	123·3	259·1	210
1931	101·6	184·3	181
1932	79·6	135·9	171
1933	..	209·3	..

SOURCES.—Bureau of National Economics; the Department of Agriculture in "Economic Bases for the Agricultural Adjustment Act"; and New York Stock Exchange Year Book.

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THE END

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